

BASIC FINANCIAL STATEMENTS AND  
OMB CIRCULAR A-133 REPORT ON  
FEDERAL FINANCIAL ASSISTANCE  
PROGRAMS

Government of the United States Virgin Islands  
Year Ended September 30, 2013  
With Report on Independent Auditors

Ernst & Young LLP



Government of the United States Virgin Islands  
 Basic Financial Statements and OMB Circular A-133 Report on  
 Federal Financial Assistance Programs

Year Ended September 30, 2013

**Contents**

	<u>Page</u>
Report of Independent Auditors.....	1
Management's Discussion and Analysis (MD&A) .....	6
 Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position (Deficit) .....	19
Statement of Activities .....	21
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	23
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities - Governmental Funds .....	25
Statement of Revenues and Expenditures - Budget and Actual - Budgetary Basis - General Fund .....	26
Statement of Net Position (Deficit) - Proprietary Funds .....	27
Statement of Revenues, Expenses, and Changes in Fund Net Position (Deficit) - Proprietary Funds .....	28
Statement of Cash Flows - Proprietary Funds .....	29
Statement of Fiduciary Net Position - Fiduciary Funds .....	30
Statement of Changes in Fiduciary Net Position - Fiduciary Funds .....	31
Notes to Basic Financial Statements .....	32
 Required Supplementary Information (other than MD&A):	
Employees' Retirement System of the Government of U.S. Virgin Islands Schedule of Funding Progress .....	145
Schedule of Employer Contributions .....	148
 Report on Internal Control:	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	149
 Single Audit Report Section:	
Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133 .....	152
Schedule of Expenditures of Federal Awards .....	157
Notes to Schedule of Expenditures of Federal Awards .....	164
Schedule of Findings and Questioned Costs .....	166
Summary Schedule of Prior Audit Findings .....	232

# Basic Financial Statements

## Report of Independent Auditors

The Honorable Governor  
of the Government of the United States Virgin Islands:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units:

- The Virgin Islands Lottery (V.I. Lottery), a nonmajor enterprise fund, which represents 0.3% and 3.4%, respectively, of the assets, and revenues/additions of the aggregate remaining fund information, and 4.9%, 7.3%, and 18.7%, respectively, of the assets, net position, and revenue of the business-type activities. The V.I. Lottery net deficit represents \$2.9 million of the \$1.3 billion net position/fund balance of the aggregate remaining fund information.
- The Employees' Retirement System of the Government of the Virgin Islands (GERS), a fiduciary component unit (pension trust fund), which represents 27.5%, 93.7%, and 37.2%, respectively, of the assets, net position/fund balance, and revenue of the aggregate remaining fund information.
- The Virgin Islands Port Authority (VIPA), the Virgin Islands Water and Power Authority (WAPA), The Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (VIPTS), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), and the Virgin Islands Housing Finance Authority (VIHFA), discretely-presented component units, which collectively represent 81.9%, 74.7%, and 84.7%, respectively, of the assets, net position, and revenue of the aggregate discretely-presented component units.

These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the activities, funds, and component units indicated above, are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Business-type Activities and the Aggregate Remaining Fund Information.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Summary of Opinions***

<b>Opinion Unit</b>	<b>Type of Report</b>
Governmental Activities	Qualified
Business-type Activities	Disclaimer
General Fund	Unmodified
Debt Service Fund	Unmodified
Capital Projects Fund	Unmodified
West Indian Company Fund-enterprise Fund	Unmodified
Unemployment Insurance-enterprise Fund	Unmodified
Aggregate Remaining Fund Information	Disclaimer
Aggregate Discretely-presented Component Units	Qualified

***Basis for Qualified Opinion on Aggregate Discretely-Presented Component Units***

The report of other auditors on the 2013 financial statements of VIPTS, a discretely-presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether capital assets of \$6.4 million were fairly stated.

The financial statements of WMA and the Virgin Islands Research and Technology Park (RTPark), nonmajor discretely-presented component units, have not been audited, and we were not engaged to audit the WMA and RTPark financial statements as part of our audit of the Government's basic financial statements. WMA and RTPark's financial activities are included in the Government's basic financial statements as a discretely-presented component units and represents 9%, 15%, and 6% of the assets, net position, and revenues, respectively, of the Government's aggregate discretely-presented component units.

***Basis for Qualified Opinion on Governmental Activities***

The Government did not maintain the requisite documentation to support its accrued retroactive liability of \$195.3 million as of September 30, 2013 and for fiscal year 2013. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments to these balances in the governmental activities were required.

***Qualified Opinion***

In our opinion, based on our audit and the report of other auditors, except for the possible effects of the matters described in the Basis for Qualified Opinion on Aggregate Discretely-Presented Component Units paragraph, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate discretely-presented component units of the Government of the United States Virgin Islands at September 30, 2013, and the respective changes for financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

***Basis for Disclaimer Opinion on Business-type Activities and on the Aggregate Remaining Fund Information***

The basic financial statements do not include a liability for medical malpractice claims in the reciprocal insurance fund (a non-major enterprise fund) and, accordingly, the Government has not recorded an expense for the current period change in that liability. The Government's records do not permit it, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the Business-type Activities and Aggregate Remaining Fund Information as of and for the year ended September 30, 2013 may have been affected by this condition.

The report of other auditors on the 2013 financial statements of GERS, a fiduciary component unit (pension trust fund), was qualified because GERS maintained investments in a limited partnership valued at \$41.2 million whose fair value has been estimated in the absence of a readily determinable fair value. GERS' estimate was based on information provided by the general partner of the limited partnership. The effect on the financial statements as a result of GERS' inability to document its procedures for determining fair value of the investment was not determinable.

### ***Disclaimer of Opinion***

Because of the significance of the matters discussed in the Basis for Disclaimer Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Business-type Activities and on the Aggregate Remaining Fund Information. Accordingly, we do not express an opinion on these financial statements.

### ***Unmodified Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Government of the United States Virgin Islands, as of September 30, 2013, and the respective changes in financial position and budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

### ***Restatement of the 2012 Aggregate Discretely-Presented Component Units***

As described more fully in Note 18 to the financial statements, the beginning net position of the discretely-presented component units as of September 30, 2012, was restated by \$17.1 million. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that management's discussion and analysis and the schedules of funding progress and employer contributions listed on pages 6 through 18 and 145 through 148 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Government's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, on page 157, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014, on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government's internal control over financial reporting and compliance.

*Ernst + Young LLP*

June 30, 2014



# Government of the United States Virgin Islands

## Management's Discussion and Analysis

September 30, 2013

### **Introduction**

The following management's discussion and analysis presents an overview of the financial position and activities of the Government of the United States Virgin Islands (the Government) as of and for the fiscal years ended September 30, 2013 and 2012.

### **Government-wide Financial Statements**

The government-wide financial statements are designed to present an overall picture of the financial position of the Government. These statements consist of the statement of net position and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that current year's revenue and expenses are included regardless of when cash is received or paid, producing a view of financial position and changes in financial position similar to that presented by most private-sector companies.

The statement of net position combines and consolidates the Government's current financial resources with capital assets and long-term obligations.

Both of the above-mentioned financial statements have separate sections for three different types of the Government programs or activities. These three types of activities are as follows:

***Governmental Activities*** – The activities in this section are mostly supported by taxes and intergovernmental revenue (federal grants). Most services normally associated with the primary government (PG) fall into this category, including general government, public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.

***Business-Type Activities*** – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the Government include the operations of the (i) unemployment insurance program and (ii) the West Indian Company (WICO). Both of these programs operate with minimal assistance from the governmental activities of the Government.

## Government of the United States Virgin Islands

### Management's Discussion and Analysis (continued)

***Discretely-Presented Component Units*** – These are operations for which the Government has financial accountability even though they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The Government's discretely-presented component units are presented in two categories, major and non-major. This separation is determined by the relative size of the entities' assets, liabilities, revenue, and expenses in relation to the total of all component units.

#### **Fund Financial Statements**

Fund financial statements focus on the most significant (or major) funds of the Government. A fund is a separate accounting entity with a self-balancing set of accounts. The Government uses funds to keep track of sources of funding and spending related to specific activities. The Government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

A major fund is a fund whose revenue, expenditures or expenses, assets, or liabilities (excluding extraordinary items) are at least 10% of the corresponding totals for all governmental or enterprise funds and at least 5% of the aggregate amount for all governmental and enterprise funds for the same item. The general fund is always considered a major fund. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the Government believes is particularly important to the financial statements may be reported as a major fund.

All of the funds of the Government are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

#### ***Governmental Funds***

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental funds statements provide a detailed short-term view of the PG's general governmental operations and the basic services it provides. The reconciliation following the fund financial statements explains the differences between the governmental activities, reported in the government-wide financial statements, and the governmental funds' financial statements. The General Fund, the PFA debt service fund and the PFA capital projects fund are reported as major governmental funds.

## Government of the United States Virgin Islands

### Management's Discussion and Analysis (continued)

The General Fund is the PG's primary operating fund. It accounts for all financial resources of the PG, except those required to be accounted for in another fund.

The PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by the PFA on behalf of the Government.

The PFA capital projects fund accounts for bond proceeds of debt issued by the PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

The governmental fund activities are reported in a separate balance sheet and statement of revenues, expenditures, and changes in fund balances. Additionally, the government presents a reconciliation of the statement of revenues, expenditures, and change in fund balances, to the statement of activities.

#### ***Proprietary Funds***

Services provided to outside (nongovernmental) customers are reported in enterprise funds. Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements.

The West Indian Company (WICO) fund and the Unemployment Insurance Fund are major proprietary funds.

The WICO fund accounts for the activities of WICO, which owns a port facility including a cruise ship pier, and manages a shopping mall complex on the island of St. Thomas.

The Unemployment Insurance Fund is a federally mandated program to manage unemployment insurance.

The proprietary fund activities are reported in a separate statement of net position, statement of revenues, expenditures, and changes in net position and statement of cash flows.

#### ***Fiduciary Funds***

The fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position.

## Government of the United States Virgin Islands

### Management's Discussion and Analysis (continued)

#### **Financial Analysis of the Government as a Whole**

The PG and its component units continue to experience a downturn in the economy following the economic recession of 2008.

The Government has initiated several actions to offset the negative impact of these financial challenges. The Government continues to promote environmentally safe industries into the USVI. The Government is participating in the American Recovery and Reinvestment Act, obtaining federal grants for energy, health, education and other construction projects, and other federal tax initiatives. To improve cash flow, the PG overhauled the property tax assessment and valuation systems of the Territory, proposed increases to locally assessed taxes, initiated tax compliance programs, and enacted expenditure reduction initiatives.

In fiscal year 2013, the Government issued the Series 2013A Revenue Refunding Bonds in the amount of \$36 million, to provide a partial advance refunding of the Series 2009B Bonds, the Series 2004A Bonds, and the Series 2009A-1 Bonds. The Government issued the 2012 Series A and B Revenue and Refunding Bonds in the amount of \$228.8 million to current refund the Series 1999A Bonds, the Series 2010A-1 an A-2 Notes, and the Series 2011A Note. The Government issued the Series 2012C Bonds in the amount of \$35.1 million to finance energy projects in the Territory. The Government issued the Series 2013A Note in the amount of \$2.6 million to purchase police vehicles, and the Series 2013B Note in the amount of \$40 million for certain working capital and operating expenditures. The Government also borrowed \$38 million from the U.S. Treasury to fund deficits in the Virgin Islands Unemployment Trust Fund.

#### **Financial Analysis of the Primary Government**

Total assets of the PG as of September 30, 2013 and 2012, were approximately \$1.9 billion, respectively, and total liabilities both years were approximately \$3.3 billion.

As of September 30, 2013, the PG net position was a deficit of \$1.3 billion that consisted of \$278.7 million invested in capital assets, net of related debt; \$289.6 million restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of \$1.9 billion. As of September 30, 2012, the PG net deficit of \$1.4 billion consisted of \$178.4 million invested in capital assets, net of related debt; \$226.9 million restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of \$1.8 billion.

For the fiscal year ended September 30, 2013, the PG earned program and general revenue amounting to \$1.3 billion and reported expenses of \$1.3 billion, resulting in an increase in net deficit position of \$1.2 million.

## Government of the United States Virgin Islands

### Management's Discussion and Analysis (continued)

For the fiscal year ended September 30, 2012, the PG earned program and general revenue amounting to \$1.2 billion and reported expenses of \$1.4 billion, resulting in an increase in net deficit of \$164.0 million.

Overall, revenue increased by approximately \$46.1 million in fiscal 2013, when compared to fiscal 2012, mainly due to increases in tax revenues of \$114.6 million, offset by decreases in charges for services of \$19.9 million and in federal grants of \$51.7 million. Increases in tax revenues mainly included increases in rum excise taxes (matching funds) of \$59.9 million, property taxes of \$4.0 million, and income taxes of \$4.8 million. Expenses decreased in fiscal 2013 by \$117.2 million when compared to fiscal 2012, mainly due to decreases in general government expenses of \$12.7 million due to budgetary controls and employees electing early retirement and due to a decrease in transportation and communication expenses of \$37.0 million. Health expenses decreased by \$49.2 million due to the transfer of the Supplemental Nutrition Assistance Program (Food Stamps) program to the public housing and welfare function (Department of Human Services) of the primary Government.

A summary of net position and changes in net position for the primary government follows:

#### Net Position (Deficit) – Primary Government

September 30, 2013 and 2012

*(In thousands)*

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Assets</b>						
Current assets	\$ 1,030,660	\$ 984,766	\$ 6,107	\$ 5,793	\$ 1,036,767	\$ 990,559
Capital assets	784,258	753,059	102,481	69,183	886,739	822,242
Other assets	46,652	41,743	–	66	46,652	41,809
Total assets	1,861,570	1,779,568	108,588	75,042	1,970,158	1,854,610
<b>Liabilities</b>						
Long-term debt outstanding	2,691,892	2,616,014	41,983	35,145	2,733,875	2,651,159
Other liabilities	532,273	500,106	103,168	101,255	635,441	601,361
Total liabilities	3,224,165	3,116,120	145,151	136,400	3,369,316	3,252,520
<b>Net Position</b>						
Invested in capital assets	197,458	138,617	81,293	39,849	278,751	178,466
Restricted	277,752	221,897	11,864	5,098	289,616	226,995
Unrestricted	(1,837,805)	(1,697,066)	(129,720)	(106,305)	(1,967,525)	(1,803,371)
Total net position (deficit)	\$ (1,362,595)	\$ (1,336,552)	\$ (36,563)	\$ (61,358)	\$ (1,399,158)	\$ (1,397,910)

Government of the United States Virgin Islands  
Management's Discussion and Analysis (continued)

Changes in Net Position - Primary Government

September 30, 2013 and 2012

(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenue:						
Program revenue:						
Charges for services	\$ 20,491	\$ 38,932	\$ 59,649	\$ 61,144	\$ 80,140	\$ 100,076
Operating grants and contributions	214,646	281,100	15,944	23,294	230,590	304,394
Capital grants and contributions	26,755	25,157	28,774	7,742	55,529	32,899
General revenue:						
Taxes	895,004	780,315	—	—	895,004	780,315
Interest and other	44,199	46,933	5,467	142	49,666	47,075
Other general revenue	2,134	2,134	—	—	2,134	2,134
Total revenue	<b>1,203,229</b>	<b>1,174,571</b>	<b>109,834</b>	<b>92,322</b>	<b>1,313,063</b>	<b>1,266,893</b>
Expenses:						
General government	613,282	626,050	—	—	613,282	626,050
Public safety	53,873	56,251	—	—	53,873	56,251
Health	48,350	97,590	—	—	48,350	97,590
Public housing and welfare	153,895	138,589	—	—	153,895	138,589
Education	229,021	236,612	—	—	229,021	236,612
Transportation and communication	17,938	54,991	—	—	17,938	54,991
Culture and recreation	7,613	7,356	—	—	7,613	7,356
Interest on long-term debt	106,000	103,005	—	—	106,000	103,005
Unemployment insurance	—	—	21,167	57,407	21,167	57,407
West Indian Company	—	—	9,820	8,983	9,820	8,983
Workmen's compensation	—	—	9,297	14,790	9,297	14,790
VI Lottery	—	—	20,061	15,150	20,061	15,150
Other	—	—	23,994	14,747	23,994	14,747
Total expenses	<b>1,229,972</b>	<b>1,320,444</b>	<b>84,339</b>	<b>111,077</b>	<b>1,314,311</b>	<b>1,431,521</b>
Changes in net position before transfers	<b>(26,743)</b>	<b>(145,873)</b>	<b>25,495</b>	<b>(18,755)</b>	<b>(1,248)</b>	<b>(164,628)</b>
Transfers	700	700	(700)	(700)	—	—
Change in net position	<b>(26,043)</b>	<b>(145,173)</b>	<b>24,795</b>	<b>(19,455)</b>	<b>(1,248)</b>	<b>(164,628)</b>
Net position (deficit) at beginning of year	<b>(1,336,552)</b>	<b>(1,191,379)</b>	<b>(61,358)</b>	<b>(41,903)</b>	<b>(1,397,910)</b>	<b>(1,233,282)</b>
Net position (deficit) at end of year	<b>\$ (1,362,595)</b>	<b>\$ (1,336,552)</b>	<b>\$ (36,563)</b>	<b>\$ (61,358)</b>	<b>\$ (1,399,158)</b>	<b>\$ (1,397,910)</b>

Government of the United States Virgin Islands

Management's Discussion and Analysis (continued)

The Virgin Islands Office of Management and Budget of the PG prepares an annual executive budget subject to approval by the Governor and the Legislature of the Virgin Islands. The executive budget is prepared on a budgetary basis similar to the cash basis of accounting. The executive budget includes only those funds that are subject to appropriation by law. More information regarding budgetary procedures is provided in Note 3 of the basic financial statements. A summary of the budgetary report for the General Fund of the PG, included on page 26 of the financial statements, follows:

Revenue and Expenditures – Budget and Actual –  
Budgetary Basis – General Fund

Year Ended September 30, 2013  
(In thousands)

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Total revenues	\$ 604,109	\$ 604,109	\$ 682,106	\$ 77,997
Total expenditures	<u>674,835</u>	<u>695,825</u>	<u>801,252</u>	<u>(105,427)</u>
Deficiency of revenues under expenditures	(70,726)	(91,716)	(119,146)	(27,430)
Other financing sources, net	<u>91,716</u>	<u>91,716</u>	<u>98,420</u>	<u>6,704</u>
Excess (Deficiency) of revenues and net other financing sources over expenditures	<u>\$ 20,990</u>	<u>\$ –</u>	<u>\$ (20,726)</u>	<u>\$ (20,726)</u>

For fiscal 2013, the general fund realized an unfavorable budgetary variance of \$20.7 million mainly due to the general government function of government. The general fund realized an favorable revenue variance of \$77.9 million due to the increase in tax revenues and federal grants and contributions. The PG realized a negative expenditure variance of \$105.4 million due to the increase in general government expenditures. Some of those expenditures responsible for the increase are operational expenditures like utilities, pension liabilities, and other carryforward liabilities with the loss of ARRA federal grant revenues.

## Government of the United States Virgin Islands

### Management's Discussion and Analysis (continued)

#### Capital Assets

Capital assets additions during fiscal 2013 amounted to \$64.2 million for governmental activities and \$38.1 million for business-type activities.

Capital assets additions during fiscal 2012 amounted to \$36.3 million for governmental activities and \$17.6 million for business-type activities.

The Government's capital assets include land, land improvements, buildings, building improvements, machinery and equipment, infrastructure, construction in progress, and intangibles as follows:

#### Capital Assets – Primary Government

*(In thousands)*

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land and improvements	\$ 199,325	\$ 198,342	\$ 5,495	\$ 5,495	\$ 204,820	\$ 203,837
Building and improvements	458,997	440,906	67,955	67,517	526,952	508,423
Machinery and equipment	160,217	156,472	14,181	11,766	174,398	168,238
Infrastructure	251,675	240,167	–	–	251,675	240,167
Construction in progress	123,495	102,467	47,435	12,303	170,930	114,770
Intangible	–	–	8,117	8,064	8,117	8,064
Total capital assets	<b>1,193,709</b>	1,138,354	<b>143,183</b>	105,145	<b>1,336,892</b>	1,243,499
Less accumulated depreciation	<b>(409,451)</b>	(385,295)	<b>(40,702)</b>	(35,962)	<b>(450,153)</b>	(421,257)
Total capital assets, net	<b>\$ 784,258</b>	\$ 753,059	<b>\$ 102,481</b>	\$ 69,183	<b>\$ 886,739</b>	\$ 822,242

Note 10 provides detailed information regarding the capital assets of the primary government and the component units of the Government.



Government of the United States Virgin Islands

Management's Discussion and Analysis (continued)

**Debt Administration**

The Government issues both general obligation bonds and revenue bonds. The Revised Organic Act [48 U.S.C. Section 1574 (b)(ii)] restricts the principal amount of general obligation debt that the Government may issue to no greater than 10% of the aggregate assessed valuation of taxable real property in the U.S. Virgin Islands. Following is a summary of bonds outstanding as of September 30, 2013:

**Primary Government – Bonds Payable**

*(In thousands)*

<u>Bonds Payable</u>	<u>Maturity</u>	<u>Rates (%)</u>	<u>Balance</u>
2013 Series A Revenue Refunding Bonds	2024	5.00 - 5.25	\$ 36,000
2012 Series C Revenue Bonds	2042	4.00 - 5.00	35,115
2012 Series A & B Revenue & Refunding Bonds	2032	2.25 - 5.25	228,805
2012 Series A Revenue Bonds	2032	4.00 - 5.00	142,640
2010 Series A & B Revenue Bonds	2029	4.00 - 5.25	397,060
2009 Series A Revenue Bonds (Cruzan)	2039	3.00 - 6.00	37,490
2009 Series A-1, A-2, B & C Revenue and Refunding Bonds	2040	3.00 - 5.00	396,585
2009 Series A Revenue Bonds (Diageo)	2038	6.00 - 6.75	250,000
2006 Series A Revenue Bonds	2029	3.50 - 5.00	208,875
2006 Series A,B,C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2004 Series A Revenue Bonds	2024	4.00 - 5.25	67,435
2003 Series A Revenue Bonds	2033	4.00 - 5.25	241,510
2001 Series A Tobacco Bonds	2031	5.00	12,645
Subtotal			2,061,450
Deferred costs on refundings			(13,272)
Bond premium			50,122
Bond discount			(3,533)
Bond accretion			4,500
Total			<u>\$ 2,099,267</u>

Note 11 provides detailed information regarding all bonds of the PG.

## Government of the United States Virgin Islands

### Management's Discussion and Analysis (continued)

In fiscal year 2013, the Government issued the 1) 2013A Revenue Refunding Bonds in the amount of \$36.0 million, to partially advance refund certain bond issuances, 2) the 2012A and B Revenue and Refunding Bonds in the amount of \$228.8 million to current refund the Series 1999A Bonds, the Series 2010A-1 and A-2 Working Capital Notes, and the Series 2011A Note, 3) the Series 2012C Bonds in the amount of \$35 million to finance certain energy projects, 4) the Series 2013A Note in the amount of \$2.6 million to finance the purchase of police vehicles, and 5) the Series 2013B Note in the amount of \$40.0 million, to provide working capital and to pay certain operating expenses. During fiscal year 2013, the Government also borrowed \$38.0 million from the U.S. Treasury to fund deficits in the Virgin Islands Unemployment Trust Fund.

In fiscal year 2012, the Government issued the 1) 2012A Working Capital Revenue Bonds in the amount of \$142.6 million, to provide working capital for various operating expenses, 2) the 2011 Property Tax Revenue Anticipation Note in the amount of \$13.0 million, the proceeds of which was used to pay incentive payments to government employees that elected to retire early under the Economic Stability Act enacted by the Virgin Islands Legislature in 2010, and 3) an additional \$1.6 million to a private developer in St. Croix under the 2009A Tax Increment Note. During fiscal year 2012, the Government also borrowed \$15.1 million from the U.S. Treasury to fund deficits in the Virgin Islands Unemployment Trust Fund.

The PG made bond principal payments on all outstanding general and special revenue bonds amounting to \$113.0 million during fiscal year 2013, and \$48.6 million during fiscal year 2012.

The Government's bonds secured by pledged rum excise taxes (matching funds) carry insured ratings of "BBB-" from Fitch Ratings and "Baa2" from Moody's Investors Service, respectively as of the date of this report. The Government's bonds secured by gross receipts taxes carry insured ratings of "BBB" from Fitch Ratings. On February 12, 2013, Moody's Investors Service withdrew its ratings of the Government's gross receipts tax debt, citing a lack of sufficient financial and operating information due to the late issuance of audit reports. Bond ratings reflect only the respective views of the rating agencies and an explanation of the significance of each rating may be obtained from the respective rating agency.

Government of the United States Virgin Islands  
Management's Discussion and Analysis (continued)

Other liabilities of the PG include:

**Primary Government – Other Liabilities**

September 30, 2013 and 2012  
*(In millions)*

	2013	2012
Accrued compensated absences	\$ 51	\$ 73
Accrued arbitrage rebates	–	14
Retroactive union arbitration	195	195
Litigation	13	12
Post employment benefits	285	246
Landfill closure and post closure costs	96	72
Worker's compensation	27	27
Total other liabilities	\$ 667	\$ 639

**Economic Condition and Outlook**

The PG continues its recovery efforts from the economic recession of 2008 through a combination of revenue initiatives and developing measures to reduce the deficit by controlling expenditures.

**Revenue Initiatives**

The PG has implemented several initiatives to create jobs and promote economic growth including: providing economic incentives to attract a major rum distiller (Diageo) and retain another rum distiller (Cruzan Rum), enactment of tax increment financing legislation, implementation of a broadband infrastructure initiative, continued promotion of tourism through national advertising. The PG has also implemented several tax initiatives to promote tax compliance and tax collection. A successful initiative was the “Operation Last Chance” income tax collection initiative. Delinquent taxpayers were provided an amnesty of penalty and interest to become current in tax filings. The PG has also legislated increases in local taxes, including gross receipts taxes, hotel taxes and stamp taxes.

## Government of the United States Virgin Islands

### Management's Discussion and Analysis (continued)

In connection with a real property tax case instituted against the PG in the U.S. District Court of the Virgin Islands, the PG was enjoined from appraising and assessing any real property taxes until it modified its system of appraisal to comply with certain court mandates. The PG retained a consultant to modify its system of appraisal and to perform reassessment of properties. This project was completed in fiscal 2009. The U.S. District Court also required an over-haul of the tax review board responsible for hearing tax assessment reviews. The PG complied with all court orders and in 2013 became current in the issuance of property tax assessments.

The Government is currently in litigation challenging the computation of its corporate franchise tax. Of the four cases brought against the Government, one is currently before the Virgin Islands Territorial Court, and the remaining three cases are on appeal.

#### **Budgetary Control of Expenditures**

The PG faces the challenge of carry-forward liabilities from prior fiscal years and the loss of federal grant revenues with the closing of the American Recovery and Reinvestment (ARRA) grant program.

Carry-forward liabilities consist mainly of retroactive salary increases, which accumulated following Hurricanes Hugo, Marilyn and Bertha in the years of 1990 through 1998. At September 30, 2013 and 2012, unpaid retroactive salary increase liabilities amounted to \$195.3 million, respectively, reported as a liability of the Government within other noncurrent liabilities.

Federal grant program revenues returned to pre-ARRA levels in fiscal year 2013, a reduction of \$64.8 million.

The PG faces the challenge of funding pension and other post-employment benefits for retirees. In September 2011, the Department of Interior issued an evaluation report that the Government's pension plan may be unable to fulfill its responsibilities in fourteen to seventeen years. In addition to pension liabilities, the actuarial estimate of post-employment liabilities (mainly health insurance for retirees) was \$284.9 billion as of September 30, 2013. The PG has enacted a Pension Reform Joint Task Force to provide recommendations to the Legislature to meet these challenges. Recommendations provided by the Task Force included: (1) increasing retirement age, (2) restructuring of benefits, and (3) no longer allowing retirees to both work and collect benefits from the PG.

## Government of the United States Virgin Islands

### Management's Discussion and Analysis (continued)

#### **Deficit Reduction Measures**

In fiscal year 2013, the PG reported an unrestricted net deficit of \$1.9 billion. In fiscal year 2012, the PG reported an unrestricted net deficit of \$1.8 billion.

The PG has implemented a number of deficit reducing measures including: (i) withholding of local gross receipts taxes on Government invoice payments, (ii) increasing local taxes such as property tax assessments on time-shares, gross receipts taxes and hotel taxes; (iii) exerting greater control of expenditures through the budgetary process, and (iv) increasing collection efforts for amounts due to the PG from taxpayers.

#### **Contacting the Government's Financial Management**

This financial report is designed to provide the Government's citizens, taxpayers, customers, and creditors with a general overview of the Government's finances. If you have questions about this report, or need additional financial information, contact the Government of the United States Virgin Islands, Department of Finance, No. 2314 Kronprindsens Gade, St. Thomas, VI 00802.

# Basic Financial Statements

Government of the United States Virgin Islands

Statement of Net Position

September 30, 2013

(In thousands)

	Primary Government		Total	Component Units
	Governmental Activities	Business-type Activities		
<b>Assets</b>				
Cash and cash equivalents	\$ 194,404	\$ 9,226	\$ 203,630	\$ 78,138
Investments	544,268	1,519	545,787	12,047
Receivables, net	220,697	5,260	225,957	65,065
Internal balances	37,378	(37,378)	–	–
Due from component units	4,348	–	4,348	–
Notes and other receivables	–	–	–	8,660
Due from primary government	–	–	–	41,181
Due from federal government	22,740	14,429	37,169	13,015
Inventories	–	–	–	32,271
Other assets	5,502	1,187	6,689	15,455
Restricted:				
Cash and cash equivalents	1,323	11,864	13,187	59,771
Investments	–	–	–	85,788
Other	–	–	–	26,062
Capital assets, net	784,258	102,481	886,739	991,625
Deferred expenses and other assets	46,652	–	46,652	108,132
Total assets	1,861,570	108,588	1,970,158	1,537,210
<b>Liabilities</b>				
Accounts payable and accrued liabilities	121,616	14,004	135,620	205,702
Tax refunds payable	50,039	–	50,039	–
Unemployment insurance benefits	–	8,319	8,319	–
Customer deposits	–	–	–	24,889
Due to primary government	–	–	–	4,348
Due to component units	41,181	–	41,181	–
Due to federal government	–	–	–	5,770
Interest payable	51,931	–	51,931	7,095
Unearned revenue	193,166	1,392	194,558	11,895
Other current liabilities	–	–	–	17,820
Noncurrent liabilities:				
Due within one year:				
Notes payable	3,037	76,406	79,443	4,665
Bonds payable	62,835	–	62,835	15,359
Other liabilities	5,376	3,047	8,423	771
Due in more than one year:				
Line of credit payable	–	–	–	19,375
Notes payable	23,522	21,239	44,761	58,864
Bonds payable	2,036,432	–	2,036,432	292,077
Other liabilities	635,030	20,744	655,774	68,453
Total liabilities	3,224,165	145,151	3,369,316	737,083

(Continued)

Government of the United States Virgin Islands

Statement of Net Position (continued)

September 30, 2013

(In thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Net Position:</b>				
Invested in capital assets	\$ 197,458	\$ 81,293	\$ 278,751	\$ 735,640
Restricted for:				
Unemployment insurance	–	9,907	9,907	–
Debt service	276,429	1,957	278,386	–
Capital projects	1,323	–	1,323	–
Other purposes	–	–	–	169,608
Unrestricted	(1,837,805)	(129,720)	(1,967,525)	(105,121)
Total net position (deficit)	\$ (1,362,595)	\$ (36,563)	\$ (1,399,158)	\$ 800,127

See accompanying notes.



Government of the United States Virgin Islands

Statement of Activities

Year Ended September 30, 2013

(In thousands)

	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Functions:								
Primary government:								
Governmental activities:								
General government	\$ 613,282	\$ 16,801	\$ 29,168	\$ 6,888	\$ (560,425)	\$ -	\$ (560,425)	\$ -
Public safety	53,873	557	2,998	-	(50,318)	-	(50,318)	-
Health	48,350	708	20,201	-	(27,441)	-	(27,441)	-
Public housing and welfare	153,895	434	100,114	-	(53,347)	-	(53,347)	-
Education	229,021	421	58,000	-	(170,600)	-	(170,600)	-
Transportation and communication	17,938	465	4,165	19,867	6,559	-	6,559	-
Culture and recreation	7,613	1,105	-	-	(6,508)	-	(6,508)	-
Interest on long-term debt	106,000	-	-	-	(106,000)	-	(106,000)	-
Total governmental activities	<u>1,229,972</u>	<u>20,491</u>	<u>214,646</u>	<u>26,755</u>	<u>(968,080)</u>	<u>-</u>	<u>(968,080)</u>	<u>-</u>
Business-type activities:								
Unemployment insurance	21,167	12,299	13,267	-	-	4,399	4,399	-
West Indian Company	9,820	9,112	-	-	-	(708)	(708)	-
Workmen's compensation	9,297	6,635	-	-	-	(2,662)	(2,662)	-
VI Lottery	20,061	19,287	-	-	-	(774)	(774)	-
Other	23,994	12,316	2,677	28,774	-	19,773	19,773	-
Total business-type activities	<u>84,339</u>	<u>59,649</u>	<u>15,944</u>	<u>28,774</u>	<u>-</u>	<u>20,028</u>	<u>20,028</u>	<u>-</u>
Total primary government	<u>\$ 1,314,311</u>	<u>\$ 80,140</u>	<u>\$ 230,590</u>	<u>\$ 55,529</u>	<u>(968,080)</u>	<u>20,028</u>	<u>(948,052)</u>	<u>-</u>
Component units:								
Virgin Islands Housing Authority	\$ 48,819	\$ 6,499	\$ 35,978	\$ 7,226	-	-	-	884
Virgin Islands Port Authority	65,575	47,671	-	6,561	-	-	-	(11,343)
Virgin Islands Water and Power Authority:								
Electric system	341,328	339,000	-	4,944	-	-	-	2,616
Water system	50,472	37,706	-	3,185	-	-	-	(9,581)
Virgin Islands Government								
Hospital and Health Facilities Corporation:								
Roy L. Schneider Hospital	86,540	53,393	21,022	360	-	-	-	(11,765)
Juan F. Luis Hospital	85,901	48,160	20,282	327	-	-	-	(17,132)
University of the Virgin Islands	84,228	17,580	49,640	3,992	-	-	-	(13,016)
Other component units	69,192	8,460	55,547	5,400	-	-	-	215
Total component units	<u>\$ 832,055</u>	<u>\$ 558,469</u>	<u>\$ 182,469</u>	<u>\$ 31,995</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(59,122)</u>
Total primary government and component units					<u>(968,080)</u>	<u>20,028</u>	<u>(948,052)</u>	<u>(59,122)</u>

(continued)

Government of the United States Virgin Islands

Statement of Activities (continued)

Year Ended September 30, 2013

(In thousands)

	<b>Net Revenue (Expense) and Changes in Net Position</b>			<b>Component Units</b>
	<b>Primary Government</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
General revenues:				
Taxes	895,004	-	895,004	-
Interest and other	44,199	5,467	49,666	13,960
Tobacco settlement rights	2,134	-	2,134	-
Transfers – internal activities of primary government	700	(700)	-	-
Forgiveness of debt	-	-	-	-
Total general revenue	<u>942,037</u>	<u>4,767</u>	<u>946,804</u>	<u>13,960</u>
Changes in net position	(26,043)	24,795	(1,248)	(45,162)
Net position, beginning of year, as restated	(1,336,552)	(61,358)	(1,397,910)	845,289
Net position, end of year	<u>\$ (1,362,595)</u>	<u>\$ (36,563)</u>	<u>\$ (1,399,158)</u>	<u>\$ 800,127</u>

See accompanying notes.

Government of the United States Virgin Islands

Balance Sheet – Governmental Funds

September 30, 2013

(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
<b>Assets</b>					
Cash and cash equivalents	\$ 105,284	\$ 4,514	\$ 23,634	\$ 62,295	\$ 195,727
Investments	143,577	341,303	54,291	5,097	544,268
Receivables:					
Taxes, net	171,417	47,532	–	–	218,949
Accrued interest and other	9	–	–	139	148
Due from:					
Other funds	13,979	–	31,089	18,549	63,617
Component units, net	4,348	–	–	–	4,348
Federal government	–	–	–	22,740	22,740
Total assets	<u>\$ 438,614</u>	<u>\$ 393,349</u>	<u>\$ 109,014</u>	<u>\$ 108,820</u>	<u>\$ 1,049,797</u>
<b>Liabilities and Fund Balances</b>					
Accounts payable and accrued liabilities	\$ 97,977	\$ 194	\$ 2,247	\$ 21,198	\$ 121,616
Tax refunds payable	50,039	–	–	–	50,039
Due to:					
Other funds	17,160	–	–	9,079	26,239
Component units	41,181	–	–	–	41,181
Unearned revenue	242,203	116,726	–	3,500	362,429
Total liabilities	<u>448,560</u>	<u>116,920</u>	<u>2,247</u>	<u>33,777</u>	<u>601,504</u>
Fund balances:					
Restricted	–	276,429	106,767	–	383,196
Committed	27,314	–	–	27,217	54,531
Assigned	–	–	–	47,826	47,826
Unassigned	(37,260)	–	–	–	(37,260)
Total fund balances	<u>(9,946)</u>	<u>276,429</u>	<u>106,767</u>	<u>75,043</u>	<u>448,293</u>
Total liabilities and fund balances	<u>\$ 438,614</u>	<u>\$ 393,349</u>	<u>\$ 109,014</u>	<u>\$ 108,820</u>	

**Amounts reported for governmental activities in the statement of net position (deficit) are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	784,258
Expenditures identified as related to a future period recognized as a prepaid asset in the statement of net assets.	5,502
Deferred bond issue costs are not financial resources and, therefore, are not reported in the funds.	46,652
Other long-term assets, primarily taxes receivable, will not be available to pay for current period expenditures and, therefore, are deferred in the funds.	170,865
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(51,931)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,766,234)
Net position (deficit) of governmental activities	<u>\$ (1,362,595)</u>

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues, Expenditures, and Changes in Fund Balances –  
Governmental Funds

Year Ended September 30, 2013

(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
<b>Revenues:</b>					
Taxes	\$ 641,000	\$ 249,219	\$ 1,946	\$ 22,613	\$ 914,778
Federal grants and contributions	13,968	–	–	227,433	241,401
Charges for services	9,969	–	–	10,522	20,491
Tobacco settlement rights	–	–	–	2,134	2,134
Interest and other	17,169	2,957	32	24,041	44,199
Total revenues	682,106	252,176	1,978	286,743	1,223,003
<b>Expenditures:</b>					
<b>Current:</b>					
General government	476,215	50	6,842	74,843	557,950
Public safety	49,996	–	–	2,054	52,050
Health	31,483	–	–	15,892	47,375
Public housing and welfare	52,560	–	–	100,996	153,556
Education	165,250	–	–	58,063	223,313
Transportation and communication	18,784	–	384	4,989	24,157
Culture and recreation	6,964	–	–	227	7,191
Capital outlays	3,630	–	21,057	39,058	63,745
<b>Debt service:</b>					
Principal	44,152	272,937	1,934	1,535	320,558
Interest	1,888	98,283	239	706	101,116
Total expenditures	850,922	371,270	30,456	298,363	1,551,011
Deficiency of revenue under expenditures	(168,816)	(119,094)	(28,478)	(11,620)	(328,008)
<b>Other financing sources (uses):</b>					
Bonds issued	–	265,798	34,122	–	299,920
Loans issued	40,000	–	2,660	–	42,660
Bond premiums	–	15,281	1,661	–	16,942
Bond discounts and issuance costs	–	(7,545)	–	–	(7,545)
Transfers from other funds	102,428	1,309	–	5,878	109,615
Transfers to other funds	(4,008)	(100,823)	(584)	(3,500)	(108,915)
Total other financing sources, net	138,420	174,020	37,859	2,378	352,677
Net change in fund balances	(30,396)	54,926	9,381	(9,242)	24,669
Fund balance at beginning of year	20,450	221,503	97,386	84,285	423,624
Fund balance at end of year	\$ (9,946)	\$ 276,429	\$ 106,767	\$ 75,043	\$ 448,293

See accompanying notes.

Government of the United States Virgin Islands

Reconciliation of the Statement of Revenues, Expenditures, and Changes in  
Fund Balances to the Statement of Activities – Governmental Funds

Year Ended September 30, 2013  
(In thousands)

Net change in fund balances – total governmental funds	\$	24,669
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.		31,201
Tax revenue in the statement of activities, which do not provide current financial resources, are not reported as revenue in the funds.		(19,774)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. This is the amount by which debt loan and bond proceeds of \$342.6 million exceeded debt repayments of \$320.6 million.		(22,022)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the decrease in certain liabilities reported in the statement of net assets of the previous year decreased expenses reported in the statement of activities that do not require the use of current financial resources.		(28,232)
Some expenses reported as prepaid assets in the statement of net assets in the current year are recognized as expenses in the following year in the statement of activities.		5,468
Bond issue costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount of bond issuance costs amortized in the statement of activities.		4,909
Bond premiums and discounts are reported as other financing sources and uses in the governmental funds when the bonds are issued, and are capitalized and amortized in the government-wide financial statements. This amount represents additional net interest expense reported in the statement of activities related to the amortization of premiums, discounts deferred refunding loss, and accreted interest on capital appreciation bonds during the current year.		(17,378)
Certain interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the increase in interest payable reported in the statement of net assets.		(4,884)
Change in net position of governmental activities	\$	<u><u>(26,043)</u></u>

*See accompanying notes.*

Government of the United States Virgin Islands

Statement of Revenues and Expenditures – Budget and Actual –  
Budgetary Basis – General Fund

Year Ended September 30, 2013

(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Taxes	\$ 507,244	\$ 507,244	\$ 641,000	\$ 133,756
Federal grants and contributions	13,508	–	13,968	13,968
Charges for services	–	13,508	9,969	(3,539)
Interest and other	83,357	83,357	17,169	(66,188)
Total revenues	604,109	604,109	682,106	77,997
Expenditures:				
Current:				
General government	157,696	176,279	476,215	(299,936)
Public safety	123,151	123,151	49,996	73,155
Health	68,158	68,166	31,483	36,683
Public housing and welfare	74,820	75,920	52,560	23,360
Education	198,905	200,184	165,250	34,934
Transportation and communication	30,361	30,365	18,784	11,581
Culture and recreation	21,744	21,760	6,964	14,796
Total expenditures	674,835	695,825	801,252	(105,427)
Deficiency of revenues over expenditures	(70,726)	(91,716)	(119,146)	(27,430)
Other financing sources (uses):				
Bonds issued	–	–	–	–
Loans issued	–	–	40,000	40,000
Debt service:				
Principal	–	–	–	–
Transfers from other funds	91,716	91,716	102,428	10,712
Transfer to other funds	–	–	(4,008)	(4,008)
Total other financing sources, net	91,716	91,716	98,420	6,704
Excess (deficiency) of revenues and net other financing sources over expenditures	\$ 20,990	\$ –	\$ (20,726)	\$ (20,726)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Net Position – Proprietary Funds

September 30, 2013

(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	Unemployment Insurance	Other Enterprise	Totals
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 2,013	\$ 1,129	\$ 6,084	\$ 9,226
Investments at fair value	–	–	1,519	1,519
Receivables, net:				
Premiums receivable	–	2,617	–	2,617
Other receivables	872	–	1,771	2,643
Due from:				
Other funds	–	–	739	739
Federal government	–	4,521	9,908	14,429
Other assets	675	–	512	1,187
Total current assets	3,560	8,267	20,533	32,360
Noncurrent assets:				
Restricted cash and cash equivalents	1,957	9,907	–	11,864
Capital assets	40,436	–	62,045	102,481
Deferred expenses	–	–	–	–
Total noncurrent assets	42,393	9,907	62,045	114,345
Total assets	45,953	18,174	82,578	146,705
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued liabilities	2,772	1,337	9,895	14,004
Due to other funds	4,700	–	33,417	38,117
Unemployment insurance benefits	–	8,319	–	8,319
Unearned revenue	–	–	1,392	1,392
Workers compensation	–	–	3,047	3,047
Loan payable to U.S. Treasury	–	76,406	–	76,406
Total current liabilities	7,472	86,062	47,751	141,285
Noncurrent liabilities:				
Workers compensation	–	–	20,744	20,744
Loans payable related to capital assets	21,239	–	–	21,239
Total noncurrent liabilities	21,239	–	20,744	41,983
Total liabilities	28,711	86,062	68,495	183,268
<b>Net position</b>				
Invested in capital assets	19,248	–	62,045	81,293
Restricted	1,957	9,907	–	11,864
Unrestricted	(3,963)	(77,795)	(47,962)	(129,720)
Total net position	\$ 17,242	\$ (67,888)	\$ 14,083	\$ (36,563)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues, Expenses, and Changes in Net Position –  
Proprietary Funds

Year Ended September 30, 2013

(In thousands)

	Business-type Activities – Enterprise Funds			
	West			Total
	Indian Company	Unemployment Insurance	Other Enterprise	
Operating revenues:				
Charges for services	\$ 9,112	\$ 12,299	\$ 38,238	\$ 59,649
Total operating revenues	9,112	12,299	38,238	59,649
Operating expenses:				
Cost of services	6,500	20,318	50,509	77,327
Amortization	–	–	1,586	1,586
Depreciation	1,970	–	1,257	3,227
Total operating expenses	8,470	20,318	53,352	82,140
Operating income (loss)	642	(8,019)	(15,114)	(22,491)
Non-operating revenues (expenses):				
Federal grants	–	13,267	31,451	44,718
Interest and other income	2,970	143	2,354	5,467
Interest expense	(1,350)	(849)	–	(2,199)
Total non-operating revenues, net	1,620	12,561	33,805	47,986
Income before operating transfers	2,262	4,542	18,691	25,495
Transfers to other funds	(700)	–	–	(700)
Change in net position	1,562	4,542	18,691	24,795
Net position at beginning of year	15,680	(72,430)	(4,608)	(61,358)
Net position at end of year	\$ 17,242	\$ (67,888)	\$ 14,083	\$ (36,563)

See accompanying notes.



Government of the United States Virgin Islands

Statement of Cash Flows – Proprietary Funds

Year Ended September 30, 2013

(In thousands)

	<b>Business-type Activities – Enterprise Funds</b>			
	<b>West</b>			
	<b>Indian Company</b>	<b>Unemployment Insurance</b>	<b>Other Enterprise</b>	<b>Total</b>
<b>Cash flows from operating activities</b>				
Receipts from customers and users	\$ 8,989	\$ 6,207	\$ 30,181	\$ 45,377
Payments to beneficiaries, suppliers and employees	(4,517)	(46,371)	(37,302)	(88,190)
Net cash provided by (used in) operating activities	4,472	(40,164)	(7,121)	(42,813)
<b>Cash flows from noncapital financing activities</b>				
Settlement of lawsuit	2,950	–	–	2,950
Transfer in (out) to other fund	(700)	–	–	(700)
Federal grants	–	13,267	31,451	44,718
Net cash provided by noncapital financing activities	2,250	13,267	31,451	46,968
<b>Cash flows from capital and related financing activities</b>				
Acquisition and construction of capital assets	(3,956)	–	(34,156)	(38,112)
Issuance of debt	–	38,000	–	38,000
Principal paid on debt issuances	(524)	(3,341)	–	(3,865)
Interest paid on debt issuances	(1,350)	(849)	–	(2,199)
Net cash provided by (used in) capital and related financing activities	(5,830)	33,810	(34,156)	(6,176)
<b>Cash flows from investing activities</b>				
Interest on investments	20	143	17	180
Net cash provided by investing activities	20	143	17	180
Net change in cash and cash equivalents	912	7,056	(9,809)	(1,841)
Cash and cash equivalents at beginning of year	3,058	3,980	15,893	22,931
Cash and cash equivalents at end of year	\$ 3,970	\$ 11,036	\$ 6,084	\$ 21,090
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Operating income (loss)	\$ 642	\$ (8,019)	\$ (15,114)	\$ (22,491)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,970	–	2,843	4,813
Change in assets and liabilities:				
Receivables, net	(123)	(1,573)	(483)	(2,179)
Due from federal government	–	(4,520)	(7,864)	(12,384)
Unearned revenue	–	–	290	290
Other assets	49	–	4,429	4,478
Accounts payable and accrued liabilities	1,234	747	1,965	3,946
Unemployment insurance benefits	–	(26,799)	–	(26,799)
Workers compensation	–	–	–	–
Due to other funds	700	–	6,813	7,513
Net cash provided by (used in) operating activities	\$ 4,472	\$ (40,164)	\$ (7,121)	\$ (42,813)
<b>Reconciliation of cash and cash equivalents to the statement of net assets</b>				
Cash and cash equivalents – current	\$ 2,013	\$ 1,129	\$ 6,084	\$ 9,226
Cash and cash equivalents – restricted	1,957	9,907	–	11,864
Total cash and cash equivalents at end of year	\$ 3,970	\$ 11,036	\$ 6,084	\$ 21,090

See accompanying notes.

Government of the United States Virgin Islands  
Statement of Fiduciary Net Position – Fiduciary Funds

September 30, 2013  
(In thousands)

	<b>Pension Trust Fund</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents:		
Unrestricted	\$ 77,997	\$ –
Restricted	33	–
Investments	1,069,809	4,090
Receivables, net:		
Loans and advances	148,069	–
Accrued interest	5,405	–
Other	4,697	–
Other assets	12,498	–
Total assets	1,318,508	4,090
<b>Liabilities</b>		
Accounts payable and accrued liabilities	–	–
Benefits in process of payment	4,502	–
Unsettled securities purchased	566	–
Securities lending collateral	52,361	–
Other liabilities	8,570	4,090
Total liabilities	65,999	4,090
Net position held in trust for employees' pension benefits	\$ 1,252,509	\$ –

*See accompanying notes.*

Government of the United States Virgin Islands

Statement of Changes in Fiduciary Net Position - Fiduciary Funds

Year Ended September 30, 2013

(In thousands)

	<b>Pension Trust Fund</b>
Additions:	
Contributions:	
Employer	\$ 64,431
Plan members	34,090
Total contributions	<u>98,521</u>
Investment income:	
Net appreciation of fair value of investments	81,931
Net depreciation of fair value of real estate	(366)
Interest, dividends, and other, net	31,679
Real estate – net rental income	2,932
	<u>116,176</u>
Less investment expense	4,651
Net investment income	<u>111,525</u>
Other income	1,272
Total additions	<u>211,318</u>
Deductions:	
Benefits paid	234,362
Refunds of contributions	6,203
Administrative and operational expenses	19,582
Total deductions	<u>260,147</u>
Change in net position	(48,829)
Net position, beginning of year	<u>1,301,338</u>
Net position, end of year	<u>\$ 1,252,509</u>

See accompanying notes.

# Government of the United States Virgin Islands

## Notes to Basic Financial Statements

September 30, 2013

### **1. Summary of Significant Accounting Policies**

The Government of the United States Virgin Islands (the Government) is an unincorporated organized territory of the United States of America (United States). The powers of the Government are derived from and set forth in the Revised Organic Act of 1954, as amended. The Government assumes responsibility for public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.

The accompanying basic financial statements of the Government have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the *Governmental Accounting Standards Board (GASB)*.

The accompanying basic financial statements have been prepared primarily from accounts maintained by the Department of Finance of the Government. Additional data has been derived from reports prepared by other departments, agencies, and public corporations based on independent or subsidiary accounting systems maintained by them.

### **Financial Reporting Entity**

The Government follows the provisions of GASB Statement No. 61, *The Financial Reporting Entity, Omnibus*, an amendment of GASBS Statements No. 14 and No. 34. These standards require that the Government's financial reporting entity be defined according to specific criteria. According to the standard, for financial reporting purposes, the Government is a primary government (PG). The PG includes all Government departments, agencies, boards, and organizations that are not legally separate. In addition to the PG, the financial reporting entity includes blended and discretely-presented component units. Component units include all legally separate organizations for which the Government's elected officials are financially accountable and organizations for which the nature and significance of their relationship with the primary Government are such that exclusion would cause the reporting entity's financial statements to be misleading. The criteria used to define financial accountability include: (i) if an organization is fiscally dependent on, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary Government, (ii) a government board appointed by a higher level of government, or (iii) a jointly appointed board.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Financial Reporting Entity (continued)

The financial statements of the following component units are included in the financial reporting entity either as blended or as discretely-presented component units in accordance with GAAP:

##### (a) *Blended Component Units*

The following public benefit corporations, while legally separate from the Government, meet the criteria to be reported as part of the PG because they provide services entirely or almost entirely to the Government:

##### Virgin Islands Public Finance Authority (PFA)

PFA was created as a public corporation and autonomous governmental instrumentality by Act No. 5365, *The Government Capital Improvement Act of 1988*, with the purpose of aiding the Government in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, PFA has the power, among other matters, to borrow money and issue bonds and to lend the proceeds of its bonds to the Government, any governmental instrumentality, and to private entities. Pursuant to Section 7(b)(i) of the Revised Organic Act, the Government may issue revenue bonds for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount. The powers of PFA are exercised by a board of directors consisting of the Governor (Chairperson), the Commissioner of Finance, the Director of the Office of Management and Budget, and two representatives of the private sector appointed by the Governor with the advice and consent of the USVI Legislature (the Legislature). PFA activities are blended within the PG because it is so intertwined with the Government that, in substance, they are the same. The PFA funds are reported as major funds, with the exception of PFA Special Revenue Fund, which is included in the other aggregate remaining fund information.

PFA's blended component units, the West Indian Company (WICO) and Virgin Islands Next Generation Network (viNGN), are presented as enterprise funds in the Government's basic financial statements.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Financial Reporting Entity (continued)**

**(a) *Blended Component Units (continued)***

Tobacco Settlement Financing Corporation (TSFC)

TSFC was created in September 2001 under Act No. 6428 as a separate and independent corporation of the Government to purchase the rights, title, and interest in tobacco settlement litigation awards and to issue revenue bonds supported by the tobacco settlement rights. The responsibility for the operations of TSFC is vested in a board of directors composed of three Government officials appointed by the Governor and two private citizens. The activities of TSFC are limited to activities conducted on behalf of the Government. The TSFC is reported in the other aggregate fund information.

Complete audited financial statements of the PFA and TSFC blended component units can be obtained directly by contacting their respective administrative offices:

Administrative Offices of Blended Component Units

Virgin Islands Public Finance Authority  
32-33 Kongens Gade  
St. Thomas, VI 00802

Tobacco Settlement Financing Corporation  
32-33 Kongens Gade  
St. Thomas, VI 00802

**(b) *Discretely-Presented Component Units***

The following component units, consistent with GASB Statements Nos. 61, 14 and 39 are discretely-presented in the basic financial statements because of the nature of the services they provide and the Government's ability to impose its will. The component units are reported in a separate column to emphasize that they are legally separate from the PG and governed by separate boards.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Financial Reporting Entity (continued)

##### *(b) Discretely-Presented Component Units (continued)*

###### *Major Component Units*

###### Virgin Islands Housing Authority (VIHA)

VIHA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 903 on June 18, 1962, with the purpose of providing housing for low and moderate income families residing in the U.S. Virgin Islands. From June 1962 through August 2003, the powers of VIHA were exercised by a board of commissioners consisting of seven members. In August 2003, the U.S. Department of Housing and Urban Development (HUD) determined that because of the severity of compliance violations, VIHA was declared to be in substantial default of its annual contributions contract (ACC) dated July 12, 1996 with HUD. VIHA was placed in receivership and HUD assumed control of all assets, projects, and programs.

The Authority is governed by a board of commissioners autonomous to HUD. An executive director is appointed by the Authority's Board to manage the day-to-day operations of the Authority.

Given the nature of VIHA's operations and the significance of its relationship with the Government, management believes that its exclusion from the financial reporting entity would cause the Government's basic financial statements to be incomplete.

On May 30, 2014, the HUD receivership ended, and management of VIHA was returned to a board of trustees appointed by the PG.

###### Virgin Islands Port Authority (VIPA)

VIPA was created as a body corporate and politic constituting a public corporation and autonomous government instrumentality by Act No. 2375 on December 23, 1968, with the purposes of owning, operating, and managing all types of air and marine terminals. The powers of VIPA are exercised by a board of governors consisting of the Commissioner of Economic Development and Agriculture (Chairperson), the Attorney General, the Commissioner of Public Works, the Director of the Small Business Development Agency, and five other persons appointed by the Governor with the advice and consent of the Legislature.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Financial Reporting Entity (continued)

##### *(b) Discretely-Presented Component Units (continued)*

###### *Major Component Units (continued)*

###### Virgin Islands Water and Power Authority (WAPA)

WAPA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 1248 on August 13, 1964, with the purpose of operating the water production and electric generation plants in the U.S. Virgin Islands. The powers of WAPA are exercised by a governing board consisting of nine members, all appointed by the Governor with the advice and consent of the Legislature, from which three are heads of cabinet-level executive departments or agencies and six other persons, who shall not be employees of the Government. WAPA is required by its bond resolutions to maintain separate audited financial statements for each system (the Electric and Water Systems).

###### Virgin Islands Government Hospital and Health Facilities Corporation (VIGHHFC)

VIGHHFC was created by Act No. 6012 on August 23, 1994 and became active on May 1, 1999, with the purpose of providing healthcare services and hospital facilities to the people of the U. S. Virgin Islands. The powers of VIGHHFC are exercised by a board of directors consisting of 15 members as follows: the Director of the Office of Management and Budget, the Commissioner of Finance, and 13 other members appointed by the Governor with the advice and consent of the Legislature. The VIGHHFC is composed of the Roy L. Schneider Hospital located in St. Thomas and the Juan F. Luis Hospital and Medical Center located in St. Croix. Both entities issue separate audited financial statements. The Roy L. Schneider Hospital's financial statements include its component units: the Myra Keating Smith Community Health Center ("Health Center") of St. John and the Charlotte Kimelman Cancer Institute ("Cancer Institute") on St. Thomas. The Health Center and Cancer Institute are legally separated organizations for which the Roy L. Schneider Hospital is financially accountable. The Juan F. Luis Hospital and Medical Center's financial statements include its component unit: the Virgin Islands Cardiac Center at the Governor Juan F. Luis Hospital and Medical Center Foundation, Inc. (VICC Foundation). VICC Foundation is a legally separate nonprofit corporation for which the Juan F. Luis Hospital and Medical Center is financially accountable.



Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Financial Reporting Entity (continued)**

**(b) *Discretely-Presented Component Units (continued)***

***Major Component Units (continued)***

University of the Virgin Islands (the University)

The University was organized as an instrumentality of the Government under Act No. 852 on March 16, 1962, in accordance with Section 16(a) of the Revised Organic Act of 1954, as amended. The purpose of the University is the stimulation and utilization of the intellectual resources of the people of the U.S. Virgin Islands and the development of a center of higher education. The powers of the University are exercised by a board of trustees consisting of 17 members as follows: Chairman of the Board of Education, Commissioner of Education, and the President of the University, all serving as members ex-officio, 9 other members appointed by the Governor with the advice and consent of the Legislature, two other members elected by the board of trustees, one representative of the student body, one alumnus of the University, and another representative of the teaching faculty. The University was not organized as a self-sustaining entity and therefore receives substantial financial and other support from the Government.

The University's financial statements include its blended component units: The Foundation for the University of the Virgin Islands and The Reichhold Foundation. The Foundation for the University of the Virgin Islands is a not-for-profit corporation whose purpose is to assist and support the University in accomplishing its charitable and educational mission. The Reichhold Foundation is a not-for-profit corporation that supports the arts and provides financial assistance in operating the Reichhold Center for the Arts on St. Thomas.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Financial Reporting Entity (continued)**

**(b) *Discretely-Presented Component Units (continued)***

*Nonmajor Component Units*

Virgin Islands Economic Development Authority (EDA)

EDA was created by Act No. 6390 on December 21, 2000 as a body corporate and politic constituting a public corporation and semiautonomous instrumentality of the Government. EDA was created as an umbrella authority to assume, integrate, and unify the functions of the Economic Development Commission, the Small Business Development Agency, the Government Development Bank, and the Virgin Islands Industrial Development Park Corporation. The powers of EDA are exercised by a board of directors consisting of the members of the Virgin Islands Economic Development Commission, the Director of the Virgin Islands' Bureau of Internal Revenue, and five members not employed by the Government, but appointed by the Governor with the advice and consent of the Legislature.

Magens Bay Authority (MBA)

MBA was created as a corporate instrumentality by Act No. 2085 on December 20, 1967, with the purpose of acquiring, improving, and operating parks and beaches. The powers of MBA are exercised by a board of directors consisting of the Governor and six members initially appointed by the Governor. The board of directors is responsible for the appointment and reappointment of subsequent board members except that the Governor, with the advice and consent of the Legislature may, by appointment, fill any vacancy on the board of directors remaining unfilled for sixty days.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Financial Reporting Entity (continued)

##### *(b) Discretely-Presented Component Units (continued)*

###### *Nonmajor Component Units (continued)*

###### Virgin Islands Housing Finance Authority (VIHFA)

VIHFA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government by Act No. 4636 on October 20, 1981, with the purpose of stimulating low and moderate-income housing construction and home ownership through the issuance of revenue bonds to obtain funds to be used for low-interest mortgage loans to qualified purchasers of low and moderate-income housing. On October 31, 2008, VIHFA established the Virgin Islands Housing Management, Inc. (VIHM), a wholly-owned not-for-profit subsidiary for the purpose of managing VIHFA's rental properties. The financial statements of VIHM are separately issued, and not blended into the PG. The powers of VIHFA are exercised by a board of directors consisting of the Commissioner of the Department of Housing, Parks, and Recreation (the Chairman), the Director of the Office of Management and Budget, and three persons not employed by the Government appointed by the Governor with advice and consent of the Legislature.

###### Virgin Islands Public Television System (VIPTS)

VIPTS was created as a body corporate and politic constituting a public corporation and autonomous instrumentality by Act No. 2364 on November 15, 1968, with the purpose of advancing the general welfare, education, cultural development, and awareness of public affairs of all the population of the U.S. Virgin Islands as well as to provide an effective supplement to the in-school education of children. The powers of VIPTS are exercised by a board of directors consisting of the Commissioner of Education, the Chairman of the Board of Education, three members appointed by the President of the Legislature, and four members, not more than two of whom should be employed by the Government and appointed by the Governor with the advice and consent of the Legislature. In addition, the Director of the Office of Management and Budget, the President of the University of the Virgin Islands, and the General Manager of VIPTS are ex-officio members of the board who are not entitled to vote.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Financial Reporting Entity (continued)**

*(b) Discretely-Presented Component Units (continued)*

*Nonmajor Component Units (continued)*

Virgin Islands Waste Management Authority (VIWMA)

VIWMA was established as a nonprofit, public, autonomous instrumentality of the Government by Act No. 6638 and approved by the Governor of the Virgin Islands on January 23, 2004. VIWMA provides environmentally sound management for the collection and disposal of solid waste in the territory, including operation and closure of landfills and wastewater collection, treatment and disposal. VIWMA is governed by a Board of Directors consisting of seven members.

University of the Virgin Islands Research and Technology Park (RTPark)

RTPark was established as a public, autonomous instrumentality of the Government by Act 6502 on February 21, 2002, as amended, by Act 6725, the Protected Cell Amendments Act of 2005. RTPark was organized for internet commerce and technology, providing an enabling environment for research, development, business incubation and technology-driven businesses. RTPark is governed by a Board of Directors consisting of seven members, including the Chairman of the Board of Trustees of the University, the President of the University, two trustees selected from among the Board of Trustees of the University, and three members selected by the Governor.

Complete audited financial statements of the discretely-presented component units can be obtained directly by contacting their administrative offices:

Administrative Offices

Virgin Islands Housing Authority  
402 Estate Anna's Retreat  
PO Box 7668  
St. Thomas, VI 00801

Virgin Islands Port Authority  
PO Box 301707  
St. Thomas, VI 00803

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Financial Reporting Entity (continued)**

Administrative Offices (continued)

Virgin Islands Water and Power Authority  
PO Box 1450  
St. Thomas, VI 00804

Virgin Islands Government Hospital and Health Facilities Corporation  
9048 Sugar Estate  
St. Thomas, VI 00802

University of the Virgin Islands  
2 John Brewer's Bay  
St. Thomas, VI 00802

Virgin Islands Economic Development Authority  
Nisky Shopping Center, Suite 620  
St. Thomas, VI 00802

Magens Bay Authority  
PO Box 10583  
St. Thomas, VI 00801

Virgin Islands Housing Finance Authority  
3202 Demarara  
Frenchtown Plaza, Suite 200  
St. Thomas, VI 00802

Virgin Islands Public Television System  
PO Box 7879  
St. Thomas, VI 00801

Virgin Islands Waste Management Authority  
#1 La Grande Princesse, Suite BL1  
Christiansted, VI 00820

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Financial Reporting Entity (continued)**

Administrative Offices (continued)

University of the Virgin Islands Research and Technology Park Corporation  
RR1 Box 10000  
Kingshill, St. Croix, VI 00850-9781

All financial statements of the discretely-presented component units have a fiscal year-end of September 30, 2013, except for WAPA and VIHA that have a year-end of June 30, 2013 and December 31, 2012, respectively.

**(c) *Fiduciary Component Unit***

The following public benefit corporation is legally separate from the Government, meets the definition of a blended component unit, and is presented in the fund financial statements along with other fiduciary funds of the Government. Fiduciary funds are not reported in the government-wide financial statements.

Employees' Retirement System of the Government of the Virgin Islands (GERS)

GERS was created as an independent and separate agency of the Government with the purpose of administering the Government's, and component units, cost-sharing, multiple-employer defined-benefit pension plan. GERS was established on October 1, 1959. The responsibility for the operation of GERS is vested in a board of trustees composed of seven members appointed by the Governor with the advice and consent of the Legislature.

Employee and employer contributions to GERS are recognized as additions to net position held in trust for employees' pension benefits in the period in which employee services are performed, except for contributions pursuant to the Early Retirement Act of 1994, which are recorded as the cash is received. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan, except for benefits pursuant to sections 8(a) and 8(b) of the Early Retirement Act of 1994, which are recorded when the subsidy provided by the Government is receivable and payable.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Financial Reporting Entity (continued)**

###### **(c) *Fiduciary Component Unit (continued)***

Complete audited financial statements of this component unit can be obtained directly by contacting their administrative office:

Employees' Retirement System of the Government of the Virgin Islands  
3438 Kronprindsens Gade  
St. Thomas, Virgin Islands 00802

##### **Government-wide and Fund Financial Statements**

The government-wide financial statements (that is, the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the PG and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the PG is reported separately from certain legally separate component units for which the PG is financially accountable. The statement of net position presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net position. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (i) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

# Government of the United States Virgin Islands

## Notes to Basic Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

##### (a) *Government-wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

##### (b) *Governmental Fund Financial Statements*

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Government considers most revenue to be available if collected within 90 days of the end of the current fiscal year-end. Specifically, gross receipts taxes, property taxes, and income taxes are considered to be available if collected within 30, 60, and 90 days, respectively, after the end of the current fiscal year-end. Grant revenue is considered to be available if collected within the 12 months after the end of the current fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Income taxes, gross receipts taxes, real property taxes, and grant funding are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period to the extent they are considered available. All other revenue items are considered to be measurable and available only when cash is received by the Government.



## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Fund Accounting (continued)

##### (c) *Proprietary Funds, Fiduciary Funds, and Discretely-Presented Component Units Financial Statements*

The financial statements of the proprietary funds, fiduciary funds, and discretely-presented component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

##### Fund Accounting

The Government reports its financial position and results of operations in funds, which are considered separate accounting entities and discrete presentations of those component units, which are not required to be blended. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. GASB No. 34, *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments*, establishes criteria (percentage of the assets, liabilities, revenue, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Indirect costs are automatically allocated and reported in the program expense for each fund. Non-major funds are combined in a single column in the fund financial statements. The Government reports the following major funds:

# Government of the United States Virgin Islands

## Notes to Basic Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Fund Accounting (continued)

##### (a) *Governmental Funds*

The Government reports the following major governmental funds:

- General Fund – The general fund is the Government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- PFA Debt Service Fund – The PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by PFA on behalf of the Government.
- PFA Capital Projects Fund – The PFA capital projects fund accounts for bond proceeds of debt issued by the PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

##### (b) *Proprietary Funds*

These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public. The government reports the following major proprietary funds:

- West Indian Company – WICO, a blended component unit of PFA, accounts for the activities of a cruise ship pier and shopping mall complex on the island of St. Thomas.
- Unemployment Insurance Fund – The unemployment insurance fund accounts for the collection of unemployment premiums from employers in the U.S. Virgin Islands, and the payment of unemployment benefits to eligible unemployed recipients.

# Government of the United States Virgin Islands

## Notes to Basic Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Fund Accounting (continued)

##### (c) *Fiduciary Funds*

Fiduciary funds are used to account for assets held by the Government in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Government's fiduciary funds:

- Pension Trust Fund – The pension trust fund accounts for the activities of GERS, which accumulates resources for pension benefit payments to qualified employees.
- Agency Fund – The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

#### Cash and Cash Equivalents

The Government follows the practice of pooling cash. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest-bearing accounts and time deposits with eligible depository institutions.

Cash equivalents of the proprietary funds and discretely-presented component units consist of demand accounts, money market accounts, certificates of deposit with maturities of not more than 90 days from the date of acquisition, short-term U.S. government and its agencies' obligations, and repurchase agreements with a U.S. commercial bank maturing within three months and collateralized by U.S. government obligations. Cash and cash equivalents of the discretely-presented component units are maintained in separate bank accounts from those of the PG, in their own names. By law, banks, or trust companies designated as depository of public funds of the Government are to maintain corporate surety bond or pledge collateral satisfactory to the Commissioner of Finance to secure all governmental funds deposited.

#### Investments

The PG and its component units follow the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. GASB Statement No. 40 establishes and modifies the following disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

# Government of the United States Virgin Islands

## Notes to Basic Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Investment Policies

Investment policies of the PG, its blended component units, major funds, and major component units are as follows:

- **Primary Government Investment Policies** – Title 33, Chapter 117 of the Virgin Islands Code (V.I. Code) authorizes the Government to invest in U.S. Government and its agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations. As of September 30, 2013, the General Fund, the Virgin Islands Lottery, a non-major governmental fund, and an agency fund had invested in certificates of deposit with two local banks. Investments are reported at fair value.
- **PFA Investment Policies** – Under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for Most External Investment Pools*, investments of the PFA are reported at fair value. Various bond resolutions of the PFA restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of the PFA. The PFA handles investments for two major governmental funds of the Government: the PFA debt service fund and the PFA capital projects fund.
- **Tobacco Settlement Financing Corporation Investment Policies** – Various bond resolutions of this blended component unit restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of the PFA. Investments are reported at fair value in the non-major governmental fund of the Government.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Investment Policies (continued)

- ***West Indian Company Limited Investment Policies*** – This blended business-type major fund of the Government maintains an investment policy that 1) limits investments in bonds to a maximum remaining maturity of 30 years (or estimated average life on mortgage-backed issues), 2) limits fixed income securities to a maximum of 40% and a minimum of 30% of the overall assets of the WICO portfolio, 3) limits corporate bond exposure to 45% of the fixed income portfolio, and 4) has no provision which limits or restricts investments in U.S. Government Treasury or Agency issues. WICO reports investments at fair value.
- ***Pension Trust Fund Investment Policies*** – The board of trustees of GERS have enacted policies that limit investments in certain investment categories and provide requirements for the institutions with which investment transactions may be entered into. Under those policies, GERS may invest in U.S. Government and agencies obligations, bonds or notes of any state, territory or possession of the United States, municipal bonds and obligations, foreign bonds, bonds of domestic railroad corporations, public utility bonds, industrial corporate bonds or trust certificates, common and preferred shares of foreign and domestic corporations, mutual funds, mortgage or personal loans to GERS members or retirees, and mortgage and asset-backed securities. Investments in bonds are subject to rating restrictions of BBB and may not exceed 2% of the portfolio. Investments in stock of a single corporation may not exceed 1% of the market value of the fund, or exceed 1% of the outstanding stock of the corporation. The aggregate amount of investments in stock may not exceed 60% of the market value of total investments of GERS. Investment in foreign stock should be limited to 10% of the market value of the total investments of GERS. Any investment of 20% or more of the aggregate value of the portfolio must be approved by two-thirds of the membership of the board of trustees. The investments are administered by several professional investment managers and are held in trust by a commercial bank on behalf of GERS.

Investments in equity securities in the GERS pension trust fund are reported at quoted market values. Shares of mutual funds are reported at the net asset value of shares held by GERS at year-end. Purchases and sales are recorded on a trade-date basis. Realized gains and losses on securities are determined by the average cost method.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Investment Policies (continued)

GERS is authorized to invest in life settlement policy contract investments provided the investment is in a group of life insurance policies, with a minimum number of 100 measured lives; the face value of any single policy investment does not exceed \$5.0 million or 2% of the aggregate face value of policy investments, and; the aggregate face value on any individual life does not exceed the greater of \$10.0 million or 1% of the aggregate face value of policies purchased as investments by GERS. As of September 30, 2013, GERS had invested \$50 million in the limited partnership Attilanus, a company that purchases senior life insurance policies for individuals age 65 and older with an average life expectancy of 5 to 7 years. The partnership agreement is effective through December 31, 2017, and may be extended for an additional two year period. Limited partners are not permitted to withdraw funds from the partnership. The value of the investment, net of returns of capital of \$8.1 million, was \$41.2 million at September 30, 2013.

On July 18, 2012, GERS executed a loan agreement with Attilanus. Under the terms of the agreement, a credit facility of \$10 million was made available to meet on-going premium costs and other expenses. The terms of the credit facility require interest payments at a rate of 15% per annum, and principal payments reduce the future amount available. The entire loan principal and accrued and unpaid interest is to be repaid at the termination of the credit facility on July 10, 2017. As of September 30, 2013, the outstanding balance of the credit facility was \$4.1 million.

In December 4, 2009, GERS executed a loan agreement with Seaborne Virgin Islands, Inc., a seaplane service operating on the islands of St. Croix and St. Thomas. The agreement provided for a first lien term loan of \$1.3 million at an initial interest rate of 8.25%, and a senior secured convertible loan of \$2 million at an interest rate of 14.5%, secured by real and personal property of Seaborne Airlines, the unconditional guarantee of Coastal Airways, Inc., the parent company of Seaborne, and all of the issued and outstanding stock of Seaborne. On September 20, 2012 the parties agreed to an amendment/modification to the loan agreement and term note and provided for the modification of the convertible note. The original principal indebtedness of the term note was amended and restated to be \$2.3 million with an interest rate of 6.25% per annum for the unpaid principal of the term note. The original principal indebtedness of the convertible note was amended and restated to be \$1 million. The interest is accrued at the rate of 8.25% per annum payable quarterly in arrears until the maturity date. The note may be prepaid in whole or in part with a prepayment penalty of \$300 thousand.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Investment Policies (continued)

On November 2, 2013, GERS extended an additional loan to Seaborne Virgin Islands, Inc., in the amount of \$1.5 million as part of a modification agreement of existing loans. The term of the loan is five (5) years, bearing interest in the amount of 6.25%. At September 30, 2013, the combined unpaid principal balances for the investment loans was \$3.8 million.

On December 8, 2009, GERS executed a loan agreement with Carambola Northwest, LLC (Carambola), a condominium, hotel, and golf resort on the island of St. Croix. The five year term loan in the amount of \$15 million is collateralized with all real property holdings of Carambola, with an interest rate of 10.5% per annum. Carambola subsequently went into default on the loan agreement. On May 11, 2013, GERS exercised its rights under the loan agreement and executed a preliminary Disposition Agreement with Carambola assuming management and ownership of the resort complex. As of September 30, 2013, the complex had an appraised value of \$12 million.

On September 24, 2013, GERS entered into a loan agreement with KAZI Foods of the Virgin Islands in the amount of \$6 million at an interest rate of 6.25%, and a maturity date of October 23, 2023. At September 30, 2013, the outstanding principal balance on the loan is \$5.8 million.

GERS has also invested in Havensight Mall, a shopping and pier complex on the island of St. Thomas. The property is reported at the fair market value of \$66.6 million. The investment in Havensight Mall generated rental income, net of related expense, of \$2.7 million for the year ended September 30, 2013.

GERS owns administrative facilities on the islands of St. Thomas and St. Croix. Portions of the facilities are leased to government agencies and commercial tenants, and portions of the facilities are utilized for GERS operations. The investment is reported at historical cost, net of accumulated depreciation, in the amount of \$28.1 million as of September 30, 2013.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Investment Policies (continued)

- ***WAPA and VIPA Investment Policies*** – These major component units are authorized under bond resolutions and the V.I. Code to invest in open accounts, time deposits, certificates of deposit, repurchase agreements, guaranteed investment contracts, obligations of the United States government, and obligations of any state within the United States, obligations of international banking institutions, mutual funds, corporate commercial paper, money market accounts and investment pools. Investments are reported at fair value.
- ***The University Investment Policies*** – The board of trustees of this major component unit is responsible for the management of the University’s investments which consist of U.S. Government securities and securities backed by the U.S. Government or its agencies and instrumentalities, common and preferred stocks, and mutual funds. The University is in the process of finalizing a formal investment policy for review and approval by the board of trustees. The members of the board of trustees of the Reichhold Foundation are responsible for their specific investment policy.
- ***VIGHHFC Investment Policies*** – The board of trustees of this major component unit have not developed a formal investment policy. At September 30, 2013, investments consisted of a 40% interest in a U.S. Virgin Islands corporation that provides radiology services at Juan F. Luis Hospital and Medical Center. The investment in the U.S. Virgin Islands Corporation is accounted for under the equity method and was reported without value at September 30, 2013.
- ***VIHA Investment Policies*** – This major component unit is required by the U.S. Department of Housing and Urban Development (“HUD”) to invest excess funds in obligations of the United States, certificates of deposit, or any other federally insured investment. HUD requires that deposits be fully collateralized at all times, and may be held by an unaffiliated bank or trust company for the account of the VIHA.



## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Receivables**

Taxes receivable represent amounts owed by taxpayers for individual and corporate income taxes, gross receipts taxes and real property taxes. Tax revenue is recognized in the governmental fund financial statements when they become both measurable and available based on actual collections during the seven months subsequent to the fiscal year end.

Federal government receivables represent amounts owed to the Government for reimbursement of expenditures incurred pursuant to federally funded programs.

Accounts receivable are reported net of estimated allowances for uncollectible amounts, which are determined, based upon past collection experience and current economic conditions.

Subject to the provisions of the retirement law, and subject to rules and regulations prescribed by the board of trustees of GERS, members of GERS have the right to obtain loans from GERS to finance a home, automobile, or other personal needs. The maximum mortgage loan that could be granted to members who have been contributing to GERS for at least five years is \$250,000. The interest rate on new first mortgages was 5% for loans payable in 1 to 15 years and 5.75% for loans payable over 15 years;<sup>87</sup> and on second mortgages, 6% for loans payable in 1 to 15 years and 6.75% for loans payable in over 15 years. Members may also borrow up to \$50,000 to purchase land.

Members who have contributed to GERS for at least five years can borrow up to \$18,000 for the purchase of a new automobile. The interest rate offered on auto loans was 8.5% with a maximum term of five years. Active members may also borrow up to 75% of their contributions paid into GERS to a maximum borrowing of \$50,000 as a personal loan. The interest rate offered on personal loans was 8% for the year. Retired members may qualify for personal loans up to \$50,000 at the same interest rates as active members; however, effective fiscal year 2009, retirees have the option of refinancing their personal loan provided the original amount is paid down by at least 50%. Effective March 25, 2014, the policy changed to allow retirees to refinance their loans regardless of the outstanding balance.

Member loans in GERS are valued at the outstanding loan principal balance less an allowance for estimated loan losses. GERS believe that, based upon interest rate and risk factors, this valuation approximate fair value. Loans with limited partnerships have no readily ascertainable market value and are based on the valuation reported by their general partners.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Receivables (continued)**

The accounts receivable from non-governmental customers of the discretely-presented component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the PG and other component units that arise from service charges do not have significant allowances for uncollectible accounts.

##### **Restricted Assets**

Restricted assets in the PG and discretely-presented component units are set aside primarily for the payment of bonds, notes, construction funds, unemployment benefits, and other specific purposes.

##### **Capital Assets**

Capital assets, which include land, land improvements, buildings, and intangible building improvements, machinery and equipment, construction in progress, and infrastructure assets are reported in the applicable governmental, business-type activities, and component unit columns in the government-wide financial statements as well as in the applicable proprietary funds reported in the fund financial statements.

The PG defines capital assets as assets that have an initial, individual cost and useful lives of: (i) \$5,000 for personal property with a useful life of five years; (ii) \$50,000 for buildings and building improvements with estimated useful lives of 40 and 20 years, respectively; (iii) \$100,000 for land improvements with an estimated useful life of 20 years; and (iv) \$200,000 for infrastructure with an estimated useful life of 30 years. The value of all land acquired is capitalized.

Capital assets purchased or acquired are carried at historical cost or normal cost. The normal costing method to estimate cost based on replacement cost indexed by a reciprocal factor of the price increase from the appraisal date to the actual or estimated acquisition date was used to estimate the historical cost of certain land, buildings, and building improvements because invoices and similar documentation was no longer available in certain instances. Donated capital assets are recorded at fair value at the time of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for business-type activities and proprietary component units. The costs of routine maintenance and repairs that do not add value to the assets or materially extend asset lives are expensed as incurred.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Capital Assets (continued)**

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units' financial statements.

Capital assets of the PG, excluding land and construction in progress, are depreciated on the straight-line method over the assets' estimated useful lives.

The capital assets of the component units are recorded in accordance with the applicable GASB and FASB statements and under their own individual capitalization thresholds. The estimated useful lives of capital assets reported by the component units are (i) 7 to 50 years for buildings and building improvements; (ii) 20 to 40 years for airports and marine terminals; and (iii) 3 to 20 years for vehicles and equipment.

##### **Tax Refunds Payable**

During the calendar year, the Government collects individual income taxes through withholdings and payments from taxpayers. As of September 30th, the Government estimates the amount owed to taxpayers for overpayments during the first nine months of the calendar year. These estimated amounts and the actual tax refunds claimed for prior years but not paid at year-end are recorded as tax refunds payable and as a reduction of tax revenue.

##### **Unearned Revenue**

Unearned revenue at the governmental fund level arises when potential revenue neither meets measurable nor available criteria for revenue recognition in the current period. Unearned revenue also arises when resources are received before the Government has a legal claim to them. In subsequent periods, when the revenue recognition criteria are met, or when the Government has a legal claim to the resources, Unearned revenue is reduced from the balance sheet and the revenue is recognized. Unearned revenue at the government-wide and proprietary fund levels arises only when the Government receives resources before it has a legal claim to them or revenue recognition criteria have not been met.

# Government of the United States Virgin Islands

## Notes to Basic Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Long-term Liabilities

The liabilities reported in the government-wide financial statements include the Government's bonds, long-term notes, and other long-term liabilities including: compensated absences, retroactive union arbitration salaries, landfill closure and post closure, workers compensation loss claims, postemployment benefit costs, accrued arbitrage rebates, and legal claims. Bond premiums and discounts, losses incurred on bond refundings, and debt issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts and deferred refunding losses.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Losses incurred on bond refundings are not recognized in the fund financial statements as the corresponding liability for the bonds is only recorded in the government-wide financial statements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### Fund Balance

Fund balances are reported in classifications provided by the Government Accounting Standards Board Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". Statement No. 54 provides a hierarchy of classifications based primarily on the extent to which the Government is bound to honor constraints on the specific purposes for which amounts in funds may be spent. Following are the fund classifications:

- ***Restricted Fund Balance*** – Fund balances constrained by externally imposed constraints such as constitutional provisions, laws and regulations, debt covenants and grantors. The Government's policy is to consider restricted amounts to have been spent when expenditures are incurred for which both restricted and unrestricted fund balances are available.
- ***Committed Fund Balance*** – Fund balances subject to constraints imposed by the Government's highest level of decision making authority including legislation enacted by the Legislature of the Virgin Islands, and resolutions or ordinances enacted by Government elected regulatory boards and authorities. Committed fund balances may be modified or rescinded by enacted legislation, or amendment of resolutions or ordinances.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Fund Balance (continued)

- **Assigned Fund Balance** – Fund balances subject to budgetary constraints of the Legislature, the Office of Management and Budget, or authorizing boards of the Government, that are not restricted or committed. Budgetary authority of the Office of Management and Budget is provided by Title 2, Sections 22, 23, 26 and 27 VIC, and Executive Order No. 371-1997. The Government’s policy is to expend assigned or committed amounts, before unassigned amounts, when an expenditure is incurred.
- **Unassigned Fund Balance** – Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund.
- **Nonspendable Fund Balance** – The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form (such as inventories or prepaid amounts), or (b) legally or contractually required to be maintained intact (such as a permanent endowment fund).

##### Net Position

Net position is reported in three categories:

- **Invested in Capital Assets** – This category consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Debt pertaining to significant unspent debt proceeds is not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is presented as part of restricted net position for capital projects.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Net Position (continued)

- **Restricted Net Position** – This category reflects the results constraints placed on the use of assets are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – Net position (deficit) which does not meet the definition of the two preceding categories. Unrestricted assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted assets often have constraints on resources that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Government's policy to use restricted resources first, then the unrestricted resources, as needed.

##### Compensated Absences

The vacation policy of the Government provides for the accumulation of four, six, or eight hours for each full biweekly pay period depending on the time of entry into government service. At the beginning of each calendar year, vacation leave is limited to 480 hours (60 days). However, the excess of 480 hours is considered by GERS for service credit towards the employees' retirement. This vacation policy does not apply to professional educational personnel of the Virgin Islands Department of Education, who receive compensation during the school breaks. Upon retirement, an employee receives compensation for unused vacation leave at the employee's base pay rate.

Employees accumulate sick leave at a rate of four hours for each full biweekly pay period up to a maximum of 180 days. Separated employees do not receive payment for unused sick leave; therefore, a provision for accumulated sick leave is not required.

Compensated absences accumulation policies for the blended component units and discretely-presented component units vary from entity to entity, depending upon negotiated bargaining agreements and other factors agreed upon between the management of these entities and its employees.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Interfund and Intra-entity Transactions

The Government has the following types of transactions among funds:

- *Interfund Transfers* – Legally required transfers are reported as interfund transfers in (out) when incurred.
- *Intra-entity Transactions* – These are transactions between the PG and its component units, and among the component units. Transfers between the PG and its blended component units are reported as interfund transfers, except for transfers within the same fund type.

Similarly, receivables and payables between the PG and its blended component units are reported as amounts due from (to) other funds. Transfers between the PG and discretely-presented component units (and among those component units) are reported separately as revenue and expenses or expenditures. Amounts owed to and from discretely-presented component units by the PG are reported separately from interfund payables and receivables as due from (to) component units, net of allowance for estimated uncollectible amounts.

##### Risk Management

With some exceptions, the Government does not carry general casualty or liability insurance coverage on its properties or the acts of its employees, relying instead on self-insurance and/or statutory liability limitations. However, as a result of an agreement with the Federal Emergency Management Agency (FEMA), with respect to properties and structures damaged by Hurricane Hugo and repaired with federal disaster assistance funds, the Government has obtained insurance for certain hospitals, schools, and other insurable public buildings that were repaired with such federal assistance. The Government purchases commercial insurance covering physical losses or damages against its property. The limit of liability for all risks, excluding earthquake, windstorm, and flood, is \$1 million for each and every occurrence except for windstorm and flood losses, which has a \$45 million limit. For physical losses arising from earthquake, the insurance policy has a limit of \$100 million for each and every occurrence and in the annual aggregate.

The Government does not maintain accounting records in support of individual claim liabilities or for claims incurred but not reported (IBNR). Accordingly, medical malpractice claims are accounted for on a cash basis. Therefore, the basic financial statements do not include a liability for medical malpractice claims outstanding, including related IBNR, as of September 30, 2013, as required by GAAP.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Future Adoption of Accounting Requirements**

GASB has issued the following statements that the Government and its component units have adopted for the current fiscal year:

<u>Statement Number</u>		<u>Required in Fiscal Year</u>
60	Accounting and Financial Reporting for Service Concession Arrangements	2013
61	The Financial Reporting Entity; Omnibus - an amendment of GASB Statements Nos. 14 and 34	2013
62	Codification in Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989 FASB and AICPA Pronouncements	2013
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position	2013

GASB has issued the following statements that the Government or its component units have not yet adopted:

<u>Statement Number</u>		<u>Required in Fiscal Year</u>
65	Items Previously Reported as Assets and Liabilities	2014
66	Technical Corrections - 2012 - an amendment of GASB Statement No. 10 and No. 62	2014
67	Financial Reporting for Pension Plans - an amendment of Statement No. 25	2014
68	Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27	2015
69	Government Combinations and Disposals of Government of Government Operations	2015
70	Accounting and Financial Reporting for Non-exchange Financial Guarantees	2014
71	Pension Transition for Contributions Made Subsequent to the Measurement Date	2015

The impact of these statements has not yet been determined by the Government.



## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **2. Component Units**

The basic financial statements include the financial statements of the following discretely-presented component units:

- Virgin Islands Housing Authority
- Virgin Islands Port Authority
- Virgin Islands Water and Power Authority
- Virgin Islands Government Hospital and Health Facilities Corporation
- University of the Virgin Islands
- Virgin Islands Economic Development Authority
- Magens Bay Authority
- Virgin Islands Housing Finance Authority
- Virgin Islands Public Television System
- Virgin Islands Waste Management Authority
- University of the Virgin Islands Research and Technology Park Corporation

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

2. Component Units (continued)

Condensed financial information as of September 30, 2013 of all discretely-presented component units follows (expressed in thousands):

Information on net assets	Virgin Islands Housing Authority	Virgin Islands Port Authority	Virgin Islands Water and Power Authority		Hospital and Health Facilities Corporation		University of the Virgin Islands	Other Entities	Total Component Units
			Electric System	Water System	Roy L. Schneider Hospital	Juan F. Luis Hospital			
<b>Assets:</b>									
Current assets	\$ 21,504	\$ 28,246	\$ 59,951	\$ 12,166	\$ 20,986	\$ 15,416	\$ 28,175	\$ 25,195	\$ 211,639
Due from primary government	–	–	31,695	3,622	–	8	686	5,170	41,181
Due from federal government	1,975	2,188	–	–	–	–	8,103	749	13,015
Restricted assets	3,366	13,016	56,893	10,150	823	193	38,334	48,843	171,618
Capital assets, net	69,859	232,417	290,706	66,641	52,964	38,001	69,176	171,861	991,625
Deferred expenses	–	868	60,068	1,222	–	–	–	–	62,158
Other noncurrent assets	1,564	–	–	–	255	–	1,340	42,815	45,974
Total assets	<u>98,268</u>	<u>276,735</u>	<u>499,313</u>	<u>93,801</u>	<u>75,028</u>	<u>53,618</u>	<u>145,814</u>	<u>294,633</u>	<u>1,537,210</u>
<b>Liabilities:</b>									
Current liabilities	3,855	12,728	128,048	5,601	30,417	56,601	5,043	13,213	255,506
Due to primary government	–	–	–	–	3,698	–	–	650	4,348
Due to federal government	5	–	4,565	–	–	1,200	–	–	5,770
Bonds payable	–	28,363	262,641	16,432	–	–	–	–	307,436
Notes payable	1,554	–	8,348	–	–	–	51,897	1,730	63,529
Line of credit payable	–	–	16,875	2,500	–	–	–	–	19,375
Deferred revenue	7	–	–	–	–	–	3,765	8,123	11,895
Other noncurrent liabilities	11,369	–	35,390	7,101	–	245	5,270	9,849	69,224
Total liabilities	<u>16,790</u>	<u>41,091</u>	<u>455,867</u>	<u>31,634</u>	<u>34,115</u>	<u>58,046</u>	<u>65,975</u>	<u>33,565</u>	<u>737,083</u>
<b>Net assets (deficit):</b>									
Invested in capital assets, net of related debt	64,978	203,161	138,306	52,250	52,964	37,756	15,804	170,421	735,640
Restricted	2,566	13,016	42,349	9,254	823	193	42,832	58,575	169,608
Unrestricted (deficit)	13,933	19,467	(137,208)	663	(12,874)	(42,378)	21,201	32,075	(105,121)
Total net assets	<u>\$ 81,477</u>	<u>\$ 235,644</u>	<u>\$ 43,447</u>	<u>\$ 62,167</u>	<u>\$ 40,913</u>	<u>\$ (4,429)</u>	<u>\$ 79,837</u>	<u>\$ 261,071</u>	<u>\$ 800,127</u>

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**2. Component Units (continued)**

Information on statements of activities	Expenses	Program revenue			Total Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Virgin Islands Housing Authority	\$ 48,819	\$ 6,499	\$ 35,978	\$ 7,226	\$ 884
Virgin Islands Port Authority	65,575	47,671	–	6,561	(11,343)
Virgin Islands Water and Power Authority:					
Electric System	341,328	339,001	–	4,944	2,617
Water System	50,472	37,706	–	3,185	(9,581)
Virgin Islands Government Hospital and Health Facilities Corporation:					
Roy L. Schneider Hospital	86,540	53,393	21,022	360	(11,765)
Juan F. Luis Hospital	85,901	48,160	20,282	327	(17,132)
University of the Virgin Islands	84,228	17,580	49,640	3,992	(13,016)
Other component units	69,192	8,459	55,547	5,400	214
Total activities	<u>\$ 832,055</u>	<u>\$ 558,469</u>	<u>\$ 182,469</u>	<u>\$ 31,995</u>	<u>(59,122)</u>
General revenue:					
Interest and other					13,960
Forgiveness of debt					–
Changes in net assets					(45,162)
Net assets at beginning of year <i>(as restated)</i>					<u>845,289</u>
Net assets at end of year					<u>\$ 800,127</u>

The amount due from the PG at September 30, 2013, amounted to approximately \$41.2 million, with \$35.3 million due to WAPA Electric and WAPA Water. The amount due to the PG amounted to \$3.9 million with \$3.6 million due from Roy L. Schneider Hospital.

**3. Stewardship, Compliance, and Accountability**

**Budgetary Process and Control**

The V.I. Code requires the Governor to submit an annual balanced executive budget to be adopted by the Legislature for the ensuing fiscal year. The Governor is required by law to submit to the Legislature the annual balanced executive budget no later than May 30. The annual balanced executive budget is prepared on a GAAP basis, except for encumbrances, which are reported as expenditures for budget reporting purposes, by the Virgin Islands Office of Management and Budget (OMB) working in conjunction with other Government offices and

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **3. Stewardship, Compliance, and Accountability (continued)**

##### **Budgetary Process and Control (continued)**

agencies. If the annual executive budget has not been approved before the commencement of any fiscal year, then the appropriations for the preceding fiscal year, insofar as they may be applicable, are automatically deemed re-appropriated item by item. The annual balanced executive budget, which includes those funds of the Government subject to appropriation pursuant to law, is composed of all proposed expenditures and estimated revenue for the Government. The Legislature enacts the annual executive budget through passage of lump-sum appropriations for each department. The Legislature may add, change, or delete any items in the annual executive budget proposed by the Governor. Upon passage by the Legislature, the annual executive budget is submitted to the Governor, who may veto the budget partially or in its entirety and return it to the Legislature with his objections. A veto by the Governor can be overridden only by a two-thirds majority of all members of the Legislature. The Legislature is obligated by law to pass a final annual executive budget no later than September 30, the last day of the fiscal year. Supplemental budgetary appropriations bills that are signed into law may be created during the year without the identification of a specific revenue source to finance them. In August 1999, the Legislature enacted the Financial Accountability Act (Act No. 6289). The purpose of the Financial Accountability Act is to require by law that the budget of the Government be balanced each year, and the appropriations in each fiscal year not exceed a verifiable revenue source.

Once the budget has been enacted, fiscal control over expenditures made pursuant thereto is exercised by the Governor through the Director of OMB. During any fiscal year in which the resources available to the Government are not sufficient to cover the appropriations approved for such year, the Governor, through the Director of OMB, may take administrative measures to reduce expenditures. The Governor may also make recommendations to the Legislature for new taxes or any other necessary action to meet the estimated deficiency.

Budgetary control is exercised at the department level through an allotment process. Encumbrances and expenditures cannot exceed total allotment amounts. The Government's department heads may make transfers of appropriations within the department. Appropriation transfers between departments and supplemental appropriations require executive and legislative branch approval. Unencumbered and unexpended appropriations, not designated, lapse at fiscal year-end. Also, encumbrances are established at fiscal year-end to pay certain expenditures for travel and utility costs payable against current year appropriation authority, but to be expended in the subsequent year.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 3. Stewardship, Compliance, and Accountability (continued)

##### Budget/GAAP Reconciliation

The following schedule presents a comparison of the general fund legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of timing and entity difference in the excess (deficiency) of revenue and net other financing sources over expenditures for the year ended September 30, 2013 is presented below (expressed in thousands):

Deficiency of revenues and net other financing sources over expenditures	\$ (20,726)
Entity difference – deficiency of revenues and net other financing over expenditures – activities with budgets not legally adopted	<u>(9,670)</u>
Deficiency of revenues and net other financing sources over expenditures – GAAP basis (net change in fund balance)	<u><u>\$ (30,396)</u></u>

Controls over spending in special revenue funds and non-appropriated funds are maintained at the Department of Finance by use of budgets and available resources (revenues). The Government makes appropriations to authorize expenditures for various capital projects. Budgets for capital projects normally remain available until completion of the project unless modified or rescinded.

#### 4. Cash and Cash Equivalents

##### Primary Government

At September 30, 2013, the PG reported \$203.6 million in unrestricted cash and cash equivalents, and \$13.1 million in restricted cash and cash equivalents. All of the PG's bank balances were fully collateralized.

##### Pension Trust Fund

GERS considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. At September 30, 2013, GERS held \$77.9 million in cash and cash equivalents consisting of: \$46.1 million in money market accounts and \$17.2 million in operational accounts and \$14.6 million in certificates of deposits with maturity time less than 90 days.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**4. Cash and Cash Equivalents (continued)**

**Component Units**

At September 30, 2013, discretely component units held \$78.1 million in unrestricted cash and cash equivalents and \$59.7 million in restricted cash and cash equivalents, of which \$3.1 million was not insured, bonded or collateralized as required for public funds of the Government.

**5. Investments**

**Primary Government Investments**

Following is a summary of the investments of the PG, categorized by investment type and maturity as of September 30, 2013:

<b>Primary Government Investments</b>				
<i>(In thousands)</i>				
	<b>Fair Value</b>	<b>Maturity (in years)</b>		
		<b>Less Than 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>
<b>Investments with contractual maturities</b>				
Certificates of Deposit	\$ 1,530	\$ 1,530	\$ –	\$ –
<b>Portfolio investments</b>				
Commercial Paper	38,691	38,370	–	321
U.S. Government Agencies and Notes	29,640	29,640	–	–
Total investments with contractual maturities	<u>69,861</u>	<u>\$ 69,540</u>	<u>\$ –</u>	<u>\$ 321</u>
<b>Investments without contractual maturities</b>				
Money Market and Mutual Funds	<u>475,926</u>			
Total Primary Government Investments	<u>\$ 545,787</u>			

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 5. Investments (continued)

##### Primary Government Investments (continued)

**Interest-Rate Risk** – Interest-rate risk represents the exposure to fair value losses arising from increasing interest rates. The PG does not have a formal investment policy that limits investment maturities as a means of managing such exposure. As a means of keeping the interest-rate risk low, virtually all investments held by the PG are short-term in nature.

**Credit Risk** – The authorizing legislation of the PG does not limit investments by credit rating categories. Authorizing legislation does limit the investment choices of the PG to direct obligations or obligations guaranteed by the United States, obligations of states, territories, possessions and commonwealths of the United States, obligations of international banking institutions, repurchase agreements, investment contracts, certificates of deposit, guaranteed investment contracts, shares in mutual funds, investment companies, corporate commercial paper, money market portfolio investments, and investment pools.

At September 30, 2013, the PG's investments in money market funds were rated AAAM by Standard & Poor's, and Aaa-mf by Moody's Investor Service. The PG's investment in commercial securities were rated A- by Standard & Poor's, and A2 by Moody's Investor Services. The PG's investment in U.S. government agencies were rated AA+ by Standard & Poor's and Aaa by Moody's Investor Services.

**Concentration of Credit Risk** – The PG places no limit on the amount that may be invested in one issuer. At September 30, 2013, more than 5% of the PG's investments were invested in: Goldman Financial Square Money Market #524 (52.2%), Federated Government Obligation #5 (17.0%), Chesham FNC/Chesh LLC, CPDS (7.01%), Invesco Treasury #1930 (6.2%), and Goldman Financial Securities Money Market #474 (5.5%).

**Custodial Credit Risk** – The PG does not have a custodial risk policy. This is the risk that the PG will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2013, \$544.3 million of investments were held in the name of The Bank of New York Trust Company, N.A, as trustee for the Government.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**5. Investments (continued)**

**Pension Trust Fund Investments**

Following is a summary of pension trust fund investments as of September 30, 2013:

**Pension Trust Fund Investments**

*(In thousands)*

	Fair Value	Maturity (in years)				
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years	No Stated Maturity
<b>Investments with contractual maturities</b>						
US government and agency obligations	\$ 3,626	\$ 1,012	\$ 1,443	\$ 490	\$ 680	\$ –
US Treasury notes	51,514	8,743	24,616	18,155	–	–
US Treasury bonds	4,175	–	–	–	4,175	–
Municipals	4,820	–	921	240	3,659	–
Mutual Funds	525,600	–	–	–	–	525,600
Corporate obligations	33,186	4,051	12,958	9,146	7,031	–
Foreign bonds and government obligations	7,418	656	3,421	–	3,340	–
Mortgage and asset backed securities	41,623	23	5,230	2,529	33,841	–
Investment loan	21,925	–	21,924	–	–	–
Total investments with contractual maturities	693,887	\$ 14,485	\$ 70,513	\$ 30,560	\$ 52,726	\$ 525,600
<b>Investments without contractual maturities</b>						
Equity Securities						
Common stocks - U.S.	154,876					
Real Estate Investments						
Real estate investment trusts	4,252					
Havensight Mall - US Virgin Islands	66,600					
Renaissance Carambola Beach Resort	12,000					
GERS Complex - US Virgin Islands	28,140					
Limited partnerships	57,693					
Securities lending short-term collateral investment pool	52,361					
Total pension fund investments	<u>\$ 1,069,809</u>					



Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**5. Investments (continued)**

**Pension Trust Fund Investments (continued)**

***Interest Rate Risk*** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. GERS does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon, and geography. Investment managers retained by GERS follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from GERS' board of trustees.

***Credit Risk*** – GERS investment policy is designed to minimize credit risk by restricting authorized investments to only those investments permitted by statute, subject to certain additional limitations. These additional limitations consist of prohibitions against investments in derivative securities, options, futures or short positions. GERS investment policy allows investments in mortgage pass-through securities.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**5. Investments (continued)**

**Pension Trust Fund Investments (continued)**

The credit ratings of GERS debt and equity securities include:

**Pension Trust Fund Investment Credit Ratings**  
(in thousands)

	Fair Value	Credit Ratings	
		Standard & Poor	Moody's
US government and agency obligations	\$ 1,139	AA+	Aaa
US government and agency obligations	726	AA+	Aa2
US government and agency obligations	1,013	AA-	Aa1
US government and agency obligations	258	Not Rated	BBB
US government and agency obligations	490	Not Rated	Not Rated
US Treasury notes	4,175	AA+	Aaa
US Treasury bonds	51,514	AA+	Aaa
Corporate obligations	32,636	BBB- to AA+	Baa3 to Aa1
Corporate obligations	368	BBB-	Not Rated
Corporate obligations	182	Not Rated	Not Rated
Foreign bonds and government obligations	3,427	A1 to AAA	Aaa
Foreign bonds and government obligations	3,991	Not Rated	Baa1 to Aaa
Municipals	3,491	A to AAA	A1 to Aaa
Municipals	1,329	B- to BB+	B3 to B2
Mortgage and asset backed securities	33,753	A+ to AAA	Caa3 to Aaa
Mortgage and asset backed securities	1,986	CCC to A+	Not Rated
Mortgage and asset backed securities	5,884	Not Rated	Not Rated
Common stocks- US	154,876	Not Rated	Not Rated
Real estate investment trust	4,252	Not Rated	Not Rated
Real estate holdings - US Virgin Islands	106,740	Not Rated	Not Rated
Investment loans	21,925	Not Rated	Not Rated
Limited partnership	57,693	Not Rated	Not Rated
Securities lending short-term collateral investment pool	52,361	Not Rated	Not Rated
Mutual funds	525,600	Not Rated	Not Rated
Total investments	<u>\$ 1,069,809</u>		

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 5. Investments (continued)

##### Pension Trust Fund Investments (continued)

***Custodial Credit Risk*** – The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, GERS will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. With the exception of underlying securities on loans secured by non-cash collateral amounting to \$8.9 million, the entire investment portfolio of GERS was held with a single third-party custodian as of September 30, 2013. Cash collateral held for securities lending transactions is invested in a collective investment pool maintained by the securities lending agent.

***Foreign Currency Risk*** – Foreign currency risk is the risk of holding investments in foreign currencies and the risk that those foreign currencies may devalue. GERS has no general investment policy with respect to foreign currency risk.

As of September 30, 2013, \$9.4 million of GERS' portfolio was held in foreign cash equivalents and investments, with \$2.7 million held in Euro currency, \$2.0 million held in pound sterling, \$2.8 million held in Australian dollars, \$1.9 million in Egyptian pound, and \$3 thousand in other currencies. GERS entered into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates, and to facilitate the settlement of foreign security transactions. Risks associated with foreign exchange contracts include the movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are recorded with interest, dividends, and other income or losses reported at fair value. During the fiscal year ended September 30, 2013, GERS reported \$7.6 million in forward currency purchases, \$7.3 million in forward currency sales, and a foreign exchange gain of \$50 thousand.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 5. Investments (continued)

##### Pension Trust Fund Investments (continued)

**Securities Lending Transactions** –The Government’s statutes permit GERS to participate in securities lending transactions, and GERS has, via a securities lending authorization agreement (the Agreement), authorized State Street Bank and Trust Company (the Custodian) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. GERS does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2013 as to the amount of loans the Custodian can make on behalf of GERS. Under the terms of the Agreement the Custodian must indemnify the Government for losses attributable to violations by the Custodian under the “standard of care” clause described in the Agreement. There were no such violations during fiscal year 2013, or losses resulting from the default of the borrowers or the Custodian.

Loans are generally terminable on demand. The collateral received shall, (i) in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the loaned securities, (ii) in the case of loaned securities which are not denominated in U.S. dollars or whose primary trading market is not located in the United States, have a market value of 105% of the market value of the loaned securities, or (iii) have a higher value as may be applicable in the jurisdiction in which the loaned securities are customarily traded. Such collateral should be kept, at a minimum, at 100% of the market value of the security for all borrowers throughout the outstanding period of the loans.

At September 30, 2013, approximately \$60.4 million of U.S. government and agency securities, fixed income, and equity corporate securities were on loan. The cash collateral received with a corresponding liability of an equal amount is recorded in the statement of fiduciary net position. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a collective investment pool. As of September 30, 2013, such investment pool had a weighted average maturity of 42 days and an average expected maturity of 123 days. Because the loans were terminable on demand, their duration did not generally match the duration of the investments made with cash collateral.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**5. Investments (continued)**

**Component Unit Investments**

Following is a summary of component unit investments and maturities as of September 30, 2013:

**Component Unit Investments**  
(in thousands)

	<b>Fair Value</b>	<b>Maturity (in years)</b>			
		<b>Less Than 1 Year</b>	<b>1 to 5 Years</b>	<b>6 to 10 Years</b>	<b>Over 10 Years</b>
<b>Investments with contractual maturities</b>					
Certificates of deposit	\$ 8,982	\$ 6,307	\$ 2,675	\$ –	\$ –
Mortgage backed securities	–	–	–	–	–
Corporate bonds	708	283	404	–	21
Guaranteed investment contracts	–	–	–	–	–
U.S. Government agencies and notes	43,431	38,784	4,647	–	–
Total investments with contractual maturities	<u>53,121</u>	<u>\$ 45,374</u>	<u>\$ 7,726</u>	<u>\$ –</u>	<u>\$ 21</u>
<b>Investments without contractual maturities</b>					
Common stock	6,212				
Mutual funds	6,694				
Other investments	31,808				
Total component unit investments	<u>\$ 97,835</u>				

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**5. Investments (continued)**

**Component Unit Investments (continued)**

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The component units of the Government have not established formal policies which limit investment maturities as a means of managing such exposure and have some exposure to interest rate risk.

**Credit Risk** – The authorizing legislation of the component units does not limit investments by credit rating categories. Authorizing legislation limits the investment choices of the component units, as described in Note 1. At September 30, 2013, the University of the Virgin Islands’ investments includes corporate bonds with ratings of A- to BBB by Standard & Poor’s.

**Custodial Credit Risk** – The component units of the Government do not have custodial credit risk policies. This is the risk that the component unit will not be able to recover the value of its investments that are held in the possession of an outside party.

**6. Receivables**

**Primary Government Receivables**

Receivables for governmental funds at September 30, 2013 consist of the following (expressed in thousands):

	<u>General</u>	<u>PFA Debt Service</u>	<u>Total</u>
Income taxes	\$ 256,188	\$ –	\$ 256,188
Real property taxes	137,277	–	137,277
Hotel occupancy taxes	2,529	–	2,529
Excise taxes	1,681	–	1,681
Gross receipts taxes	–	131,587	131,587
Tax receivables	<u>397,675</u>	<u>131,587</u>	<u>529,262</u>
Less allowance for doubtful accounts	<u>(226,258)</u>	<u>(84,055)</u>	<u>(310,313)</u>
Net tax receivables	<u>\$ 171,417</u>	<u>\$ 47,532</u>	218,949
Other long-term receivables –			
Tobacco settlement rights and other			<u>1,748</u>
Total receivables reported in the statement of net assets			<u>\$ 220,697</u>

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **6. Receivables (continued)**

##### **Tax Receivables**

The Naval Appropriations Act created a separate tax structure for the U.S. Virgin Islands that mirrors the Internal Revenue Code of 1986, as amended. Income taxes are due from every corporation, partnership, individual, association, estate, or trust that meets the filing requirements of the U.S. Internal Revenue Code. A U.S. taxpayer who is a permanent resident of the U.S. Virgin Islands satisfies his Virgin Islands income tax obligations by filing his return with and paying income taxes to the Government. Virgin Islands residents are taxed by the Virgin Islands on their world-wide income. A nonresident of the U.S. Virgin Islands pays income taxes on his U.S. Virgin Islands source income to the Government. The revenue is recognized in the general fund in the fiscal period for which the income tax return was filed. The revenue from income tax withholding and estimated payments are recognized in the general fund as collected, net of estimated tax refunds.

Corporate income taxes are due by the 15th day of the third month following the close of the fiscal year and become delinquent if not paid on or before the due date.

Partnership and trust income taxes are due by April 15 of the following year for which the income tax was levied. Trust income taxes must be paid by the tax filing date.

Property taxes are assessed each calendar year on all taxable real property located in the U.S. Virgin Islands. The receivable is recognized, net of estimated uncollectable amounts, in the general fund in the fiscal period for which the tax was assessed. The revenue is recognized in the general fund in the fiscal period for which the property tax is levied, provided the tax is collected within 60 days subsequent to fiscal year-end, unless the facts justify a period greater than 60 days. Receivables recognized before that period are recorded as deferred revenues.

The Office of the Tax Assessor is responsible for the assessment of all taxable real property. Noncommercial real property subject to taxation is reassessed once every five years and commercial real property subject to taxation is reassessed biannually. The Tax Assessor prepares an annual assessment roll and schedule of collections for each parcel of real property that is used by The Office of the Tax Collector, as the basis for issuing tax bills to all taxpayers in the U.S. Virgin Islands.

Property taxes are to be levied by May 15 of each year in the name of the record owner on January 15 of the same year. The taxes are due on June 30 and become delinquent if not paid by August 31.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 6. Receivables (continued)

##### Tax Receivables (continued)

For businesses with gross receipts of \$120,000 per annum or less, gross receipts taxes are levied on an annual basis based on the amount of gross receipts in excess of \$9,000 per month. Businesses with annual gross receipts greater than \$120,000, but less than \$225,000, are levied on a monthly basis, based on the amount of gross receipts in excess of \$9,000 per month. Businesses with annual gross receipts of more than \$225,000 are levied on a monthly basis, based on all gross receipts, with no \$9,000 per month exemption.

Gross receipts tax assessment rates, applied to taxable gross receipts, were as follows:

October 1, 2010 through April 30, 2012:	4.0%
June 1, 2012 through February 28, 2013:	4.5%
March 1, 2013 and thereafter:	5.0%

Monthly gross receipts tax filings are due within 30 calendar days following the last day of the calendar month collected. Annual gross receipts tax filings are due within 30 calendar days following the last day of the calendar year.

##### Other Receivables

In addition to tax receivables, the PG receives tobacco settlement right payments in connection with a Master Settlement Agreement entered into with certain participating cigarette manufacturers. Under the terms of the agreement, the U.S. Virgin Islands receives .0173593% of annual payments made under the agreement. As of September 30, 2013, the PG reported a receivable of \$1.6 million for tobacco settlement right payments.

On November 14, 2011, the PG entered into a loan agreement on behalf of GERS in the amount of \$13 million, at an interest rate of 4.91% and a maturity date of December 15, 2016. The security for the loan was pledged property tax receipts for tax years prior to, and including, 2005. At September 30, 2013, the outstanding balance of the loan was \$8 million, and pledged property tax receipts were sufficient to meet debt service payments.



Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**6. Receivables (continued)**

**Component Unit and Pension Trust Fund Receivables**

Component unit receivables at September 30, 2013, consist of the following (expressed in thousands):

Utility service charges	\$ 23,918
Port fees	3,827
Students	1,976
Patients	27,968
Other	<u>7,376</u>
Total	<u>\$ 65,065</u>

Loans and advances receivable, net at September 30, 2013, consist of the following (expressed in thousands):

	<b>Fiduciary Funds Pension Trust</b>
	<u>                    </u>
Mortgage loans	\$ 7,333
Personal loans	141,687
Other loans and advances	<u>70</u>
Subtotal	149,090
Less allowance for uncollectible accounts	<u>(1,021)</u>
Loans and advances receivable, net	<u>\$ 148,069</u>

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**7. Unearned Revenue**

The components of unearned revenue for the general fund as of September 30, 2013 consist of the following (expressed in thousands):

Property tax	\$ 21,942
Matching excise tax	109,457
Income tax	110,804
	<u>\$ 242,203</u>

**8. Interfund Transactions**

Interfund transfers for the year ended September 30, 2013 consisted of the following (expressed in thousands):

<u>Transfers to</u>	<u>General</u>	<u>PFA Debt Service</u>	<u>PFA Capital Projects</u>	<u>West Indian</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
General	\$ -	\$ 98,228	\$ -	\$ 700	\$ 3,500	\$ 102,428
PFA Debt Service	725	-	584	-	-	1,309
PFA capital projects	-	-	-	-	-	-
Nonmajor governmental	3,283	2,595	-	-	-	5,878
West Indian Company	-	-	-	-	-	-
Total	<u>\$ 4,008</u>	<u>\$ 100,823</u>	<u>\$ 584</u>	<u>\$ 700</u>	<u>\$ 3,500</u>	<u>\$ 109,615</u>
<u>Transfer from</u>						
General	\$ -	\$ 725	\$ -	\$ -	\$ 3,283	\$ 4,008
PFA Debt Service	98,228	-	-	-	2,595	100,823
PFA Capital Projects	-	584	-	-	-	584
Nonmajor governmental	3,500	-	-	-	-	3,500
West Indian Company	700	-	-	-	-	700
Total	<u>\$ 102,428</u>	<u>\$ 1,309</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,878</u>	<u>\$ 109,615</u>

Interfund transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The most significant transfers to the general fund from other governmental funds included a \$98.2 million transfer from the PFA Debt Service Fund (a major governmental fund) representing gross receipt tax revenue in excess of bond debt service requirements, and a \$3.5 million transfer from the PFA Operating Fund, representing reprogrammed investment income.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**8. Interfund Transactions (continued)**

Significant transfers made from the General Fund include a transfer of \$2.0 million to the St. Croix Capital Improvement Fund (a non-major governmental fund) and a transfer of \$1.0 million to the Crisis Intervention Fund (a non-major governmental fund).

Significant transfers from the PFA Debt Service Fund included a transfer of \$2.5 million to the PFA Operating Fund (a non-major governmental fund), representing interest earned from unexpended bond proceeds.

**Due From/To Other Funds**

The following table summarizes interfund receivables and payables at September 30, 2013 (expressed in thousands):

<b>Due from other funds</b>	<b>General</b>	<b>PFA Debt Service</b>	<b>PFA Capital Projects</b>	<b>Nonmajor Governmental</b>	<b>West Indian Company</b>	<b>Nonmajor Enterprise</b>	<b>Total</b>
General	\$ –	\$ –	\$ –	\$ 9,079	\$ 4,700	\$ 200	\$ 13,979
PFA Debt Service	–	–	–	–	–	–	–
PFA capital projects	–	–	–	–	–	31,089	31,089
Nonmajor governmental	16,421	–	–	–	–	2,128	18,549
Total Governmental Funds	16,421	–	–	9,079	4,700	33,417	63,617
Nonmajor enterprise	739	–	–	–	–	–	739
Total Enterprise Funds	739	–	–	–	–	–	739
Total	<u>\$ 17,160</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 9,079</u>	<u>\$ 4,700</u>	<u>\$ 33,417</u>	<u>\$ 64,356</u>
<b>Due to other funds</b>							
General	\$ –	\$ –	\$ –	\$ 16,421	\$ –	\$ 739	\$ 17,160
PFA Debt Service	–	–	–	–	–	–	–
Nonmajor governmental	9,079	–	–	–	–	–	9,079
Total Governmental Funds	9,079	–	–	16,421	–	739	26,239
West Indian Company	4,700	–	–	–	–	–	4,700
Nonmajor enterprise	200	–	31,089	2,128	–	–	33,417
Total Enterprise Funds	4,900	–	31,089	2,128	–	–	38,117
Total	<u>\$ 13,979</u>	<u>\$ –</u>	<u>\$ 31,089</u>	<u>\$ 18,549</u>	<u>\$ –</u>	<u>\$ 739</u>	<u>\$ 64,356</u>

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**8. Interfund Transactions (continued)**

**Due From/To Other Funds (continued)**

The due from (to) other funds includes the following amounts due from the general fund: \$4.9 million due to the emergency molasses fund (a non-major governmental fund) for unpaid appropriations, \$3.5 million due to the PFA special revenue fund for unpaid matching funds, and \$1.3 million due to the elected governor retirement fund. The due to the General Fund is mainly composed of \$5.9 million due from the District Street Lighting Fund (a non-major governmental fund) and \$2.7 million owed from the bond proceeds fund (a non-major governmental fund) to the general fund.

The due to other governmental funds includes \$6 million due to the St. Croix Capital Improvement Fund from the General Fund for capital improvement projects, \$962.6 thousand due from the Virgin Islands Lottery to the Pharmaceutical Assistance to the Aged Fund and \$946 thousand due from the Virgin Islands Lottery to the VI Educational Initiative Fund consisting primarily of 15% of revenue derived from lottery games under contract between the Virgin Islands Lottery and private contractors to be transferred to these funds.

The due to PFA Capital Projects funds includes \$30.7 million due from the Virgin Islands Next Generation Network (viNGN), a non-major business-type fund in connection with start-up costs in connection with the broadband project.

**9. Restricted Assets**

**Primary Government**

Restricted assets of proprietary funds and business-type activities as of September 30, 2013 include cash and cash equivalents as follows (expressed in thousands):

<b>Restricted Assets – Proprietary Funds and Business-type Activities</b>	
Unemployment insurance funds	\$ 9,907
WICO debt service funds	<u>1,957</u>
Total restricted assets of proprietary funds and business-type activities	<u><u>\$ 11,864</u></u>

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**9. Restricted Assets (continued)**

**Component Units**

Restricted assets of component units include cash and cash equivalents, investments, and receivables as follows (expressed in thousands):

**Restricted Assets – Component Units**

Cash and cash equivalents:

Debt service and sinking fund requirements	\$ 22,984
Endowment funds	277
HUD project funds	3,366
Revolving loan funds	19,398
Construction funds	359
Renewal and replacement funds	3,714
Other	9,673
Total cash and cash equivalents	<u>59,771</u>

Investments:

Debt service and sinking fund requirements	31,923
Construction funds	11,573
Endowment funds	33,942
Renewal and replacement funds	4,263
Revolving loan funds	3,768
Other	319
Total investments	<u>85,788</u>

Other:

Pledged funds	26,062
Total restricted assets of component units	<u>\$ 171,621</u>

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**10. Capital Assets**

**Primary Government**

The capital assets activity for the governmental activities for the year ended September 30, 2013, is summarized as follows (expressed in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ 193,036	\$ 274	\$ –	\$ –	\$ 193,310
Construction in progress	85,687	56,935	(18,644)	483	123,495
Total capital assets not being depreciated	<u>278,723</u>	<u>57,209</u>	<u>(18,644)</u>	<u>483</u>	<u>316,805</u>
Capital assets being depreciated:					
Land improvements	5,305	335	375	–	6,015
Infrastructure	240,167	974	10,534	–	251,675
Buildings and improvements	449,066	2,196	7,735	–	458,997
Machinery and equipment	156,705	3,512	–	–	160,217
Total capital assets being depreciated	<u>851,243</u>	<u>7,017</u>	<u>18,644</u>	<u>–</u>	<u>876,904</u>
Less accumulated depreciation for:					
Land improvements	(3,603)	(210)			(3,813)
Infrastructure	(67,005)	(8,194)			(75,199)
Buildings and improvements	(186,716)	(12,791)	–	–	(199,507)
Machinery and equipment	(119,583)	(11,349)	–	–	(130,932)
Total accumulated depreciation	<u>(376,907)</u>	<u>(32,544)</u>	<u>–</u>	<u>–</u>	<u>(409,451)</u>
Total capital assets being depreciated, net	<u>474,336</u>	<u>(25,527)</u>	<u>18,644</u>	<u>–</u>	<u>467,453</u>
Governmental activities capital assets, net	<u>\$ 753,059</u>	<u>\$ 31,682</u>	<u>\$ –</u>	<u>\$ 483</u>	<u>\$ 784,258</u>

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**10. Capital Assets (continued)**

**Primary Government (continued)**

Capital assets activity for the business-type activities for the year ended September 30, 2013, is summarized as follows (expressed in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ 5,147	\$ –	\$ –	\$ –	\$ 5,147
Construction in progress	13,260	36,528	(2,353)	–	47,435
Total capital assets not being depreciated	<u>18,407</u>	<u>36,528</u>	<u>(2,353)</u>	<u>–</u>	<u>52,582</u>
Capital assets being depreciated and amortized:					
Land improvements	348	–	–	–	348
Buildings and improvements	67,867	59	29	–	67,955
Machinery and equipment	10,459	1,471	2,324	(73)	14,181
Intangible	8,064	53	–	–	8,117
Total capital assets being depreciated	<u>86,738</u>	<u>1,583</u>	<u>2,353</u>	<u>(73)</u>	<u>90,601</u>
Less accumulated depreciation and amortization for:					
Land improvements	(341)	(189)	–	–	(530)
Buildings and improvements	(25,663)	(2,414)	–	–	(28,077)
Machinery and equipment	(9,504)	(625)	–	73	(10,056)
Intangible	(454)	(1,585)	–	–	(2,039)
Total capital assets being depreciated and amortized, net	<u>(35,962)</u>	<u>(4,813)</u>	<u>–</u>	<u>73</u>	<u>(40,702)</u>
Business-type activities capital assets, net	<u>50,776</u>	<u>(3,230)</u>	<u>2,353</u>	<u>–</u>	<u>49,899</u>
	<u>\$ 69,183</u>	<u>\$ 33,298</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 102,481</u>

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**10. Capital Assets (continued)**

**Primary Government (continued)**

Depreciation expense was charged to functions/programs of the PG for the year ended September 30, 2013 as follows (expressed in thousands):

Governmental activities:

General government	\$ 15,153
Public safety	1,823
Health	975
Education	5,768
Public Housing and Welfare	339
Culture and recreation	422
Transportation and communication	8,064
Total depreciation expense – governmental activities	<u>\$ 32,544</u>

Business-type activities:

WICO – depreciation	\$ 1,970
Other enterprise funds – depreciation	2,843
Total depreciation – business-type activities	<u>\$ 4,813</u>



Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**10. Capital Assets (continued)**

**Component Units**

The capital assets activity for the discretely-presented component units for the year ended September 30, 2013 is summarized as follows (expressed in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposal</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ 94,677	\$ 2,301	\$ –	\$ –	\$ 96,978
Construction in progress	70,909	44,309	(23,795)	1,659	89,764
Total capital assets not being depreciated	<u>165,586</u>	<u>46,610</u>	<u>(23,795)</u>	<u>1,659</u>	<u>186,742</u>
Capital assets being depreciated:					
Buildings and improvements	1,700,633	13,079	20,279	273	1,733,718
Airport and marine terminal facilities	148,339	–	1,308	–	149,647
Personal property and equipment	150,989	7,694	2,208	249	160,642
Intangible assets	2,604	–	–	–	2,604
Total capital assets being depreciated	<u>2,002,565</u>	<u>20,773</u>	<u>23,795</u>	<u>522</u>	<u>2,046,611</u>
Less accumulated depreciation:					
Buildings and improvements	(958,137)	(57,274)	–	188	(1,015,223)
Airport and marine terminal facilities	(108,845)	(6,746)	–	–	(115,591)
Personal property and equipment	(103,468)	(7,168)	–	170	(110,466)
Intangible assets	(448)	–	–	–	(448)
Total accumulated depreciation	<u>(1,170,898)</u>	<u>(71,188)</u>	<u>–</u>	<u>358</u>	<u>(1,241,728)</u>
Total capital assets being depreciated, net	<u>831,667</u>	<u>(50,415)</u>	<u>23,795</u>	<u>880</u>	<u>804,883</u>
Component unit capital assets, net	<u>\$ 997,253</u>	<u>\$ (3,805)</u>	<u>\$ –</u>	<u>\$ 2,539</u>	<u>\$ 991,625</u>

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**10. Capital Assets (continued)**

**Component Units (continued)**

Depreciation expense charged by each component unit for the year ended September 30, 2013 was as follows (expressed in thousands):

Virgin Islands Housing Authority	\$ 6,449
Virgin Islands Port Authority	20,451
Virgin Islands Water and Power Authority:	
Electric System	23,320
Water System	4,285
Virgin Islands Government Hospital and Health Facilities Corporation:	
Roy L. Schneider Hospital	4,269
Juan F. Luis Hospital	3,190
University of the Virgin Islands	3,131
Other component units	6,093
Total depreciation expense— component units	<u>\$ 71,188</u>

# Government of the United States Virgin Islands

## Notes to Basic Financial Statements (continued)

### 11. Long-Term Liabilities

The change in long-term bonds and loans for governmental activities was as follows for the year ended September 30, 2013 (expressed in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due Thereafter</u>
Governmental activities:						
Bonds payable:						
2013 A Revenue Bonds	\$ -	\$ 36,000	\$ -	\$ 36,000	\$ -	\$ 36,000
2012 C Revenue Bonds	-	35,115	-	35,115	1,670	33,445
2012 Series A & B Revenue and Refunding Bonds	-	228,805	-	228,805	10,460	218,345
2012 Series A Revenue Bonds	142,640	-	-	142,640	-	142,640
2010 Series A & B Revenue Bonds	399,050	-	(1,990)	397,060	2,065	394,995
2009 Series A Revenue Bonds (Cruzan)	38,075	-	(585)	37,490	605	36,885
2009 Series A-1, B & C Revenue and Refunding Bonds	420,730	-	(24,145)	396,585	25,355	371,230
2009 Series A Revenue Bonds (Diageo)	250,000	-	-	250,000	4,040	245,960
2006 Series A Revenue Bonds	211,680	-	(2,805)	208,875	2,905	205,970
2006 Series A Tobacco Bonds	7,290	-	-	7,290	-	7,290
2004 Series A Revenue Bonds	71,430	-	(3,995)	67,435	4,195	63,240
2003 Series A Revenue Bonds	245,325	-	(3,815)	241,510	4,010	237,500
2001 Series A Tobacco Bonds	14,180	-	(1,535)	12,645	1,405	11,240
1999 Series A Revenue Bonds	74,165	-	(74,165)	-	-	-
Total bonds payable	<u>1,874,565</u>	<u>299,920</u>	<u>(113,035)</u>	<u>2,061,450</u>	<u>56,710</u>	<u>2,004,740</u>
Plus (less):						
Deferred losses on refundings	(14,126)	-	854	(13,272)	(854)	(12,418)
Bonds premium	35,499	16,942	(2,319)	50,122	2,656	47,466
Bonds discount	(4,728)	(164)	1,359	(3,533)	(177)	(3,356)
Bonds accretion	3,794	706	-	4,500	4,500	-
Total bonds payable, net	<u>1,895,004</u>	<u>317,404</u>	<u>(113,141)</u>	<u>2,099,267</u>	<u>62,835</u>	<u>2,036,432</u>
Loans payable:						
Series 2013A Note	-	2,660	(296)	2,364	886	1,478
Series 2013B Note	-	40,000	(40,000)	-	-	-
Series 2012A Tax Increment Financing	15,700	-	(2,175)	13,525	245	13,280
Series 2011 B Note	10,141	-	(2,098)	8,043	178	7,865
Series 2011 A Note	29,915	-	(29,915)	-	-	-
Series 2010 A Working Capital Notes	131,400	-	(131,400)	-	-	-
Series 2009 Note	4,266	-	(1,639)	2,627	1,728	899
Total loans payable	<u>191,422</u>	<u>42,660</u>	<u>(207,523)</u>	<u>26,559</u>	<u>3,037</u>	<u>23,522</u>
Total governmental bonds and loans	<u>\$ 2,086,426</u>	<u>\$ 360,064</u>	<u>\$ (320,664)</u>	<u>\$ 2,125,826</u>	<u>\$ 65,872</u>	<u>\$ 2,059,954</u>

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**11. Long-Term Liabilities (continued)**

The change in other long-term liabilities for governmental activities was as follows for the year ended September 30, 2013 (expressed in thousands):

	<b>Beginning</b>			<b>Ending</b>	<b>Amounts</b>	<b>Amounts</b>
	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b>	<b>Due Within</b>	<b>Due</b>
					<b>One Year</b>	<b>Thereafter</b>
Other liabilities:						
Accrued compensated absences	\$ 72,870	\$ –	\$ (21,588)	\$ 51,282	\$ 5,239	\$ 46,043
Retroactive union arbitration	195,286	–	–	195,286	–	195,286
Litigation	12,908	7,956	(7,810)	13,054	137	12,917
Landfill closure and postclosure costs	72,398	23,412	–	95,810	–	95,810
Accrued arbitrage rebate	13,635	–	(13,635)	–	–	–
Post employment benefit	245,079	39,895	–	284,974	–	284,974
Total other liabilities	<u>\$ 612,176</u>	<u>\$ 71,263</u>	<u>\$ (43,033)</u>	<u>\$ 640,406</u>	<u>\$ 5,376</u>	<u>\$ 635,030</u>

Accrued compensated absences, retroactive union arbitration, litigation, landfill closure and post-closure costs, accrued arbitrage rebates and post-employment benefits to retirees such as health insurance, are generally expected to be liquidated with resources derived from the general fund.

Changes in long-term liabilities for business-type activities were as follows for the year ended September 30, 2013 (expressed in thousands):

	<b>Beginning</b>			<b>Ending</b>	<b>Amounts</b>	<b>Amounts</b>
	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b>	<b>Due Within</b>	<b>Due</b>
					<b>One Year</b>	<b>Thereafter</b>
Business-type activities:						
Workers compensation claims	\$ 26,661	\$ 9,903	\$ (12,773)	\$ 23,791	\$ 3,047	\$ 20,744
Loan payable - US Treasury	41,747	38,000	(3,341)	76,406	76,406	–
Note payable - WICO	21,764	–	(525)	21,239	–	21,239
Total business-type activities	<u>\$ 90,172</u>	<u>\$ 47,903</u>	<u>\$ (16,639)</u>	<u>\$ 121,436</u>	<u>\$ 79,453</u>	<u>\$ 41,983</u>

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Debt Margin**

Pursuant to 48 U.S.C. Section 1574(b)(i) of the Revised Organic Act, the Government may issue revenue bonds for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount. Such revenue bonds are payable solely from the revenue directly derived from and attributable to such public improvements or undertakings. Pursuant to 48 U.S.C. Section 1574(b)(ii), the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness is in excess of 10% of the aggregate assessed valuation of the taxable real property in the U.S. Virgin Islands. In addition, pursuant to 48 U.S.C. Section 1574(a) (Public Law 94-932), the U.S. Virgin Islands is authorized to cause to be issued bonds or other obligations in anticipation of the matching funds to be received from the federal government pursuant to 26 U.S.C. Section 7652(b)(3). There is no legal limit on the value of bonds that the Government may issue pursuant to 48 U.S.C. Section 1574(a). The Legislature of the U.S. Virgin Islands must authorize all bond issuances. PFA is authorized to issue bonds for the purpose of financing any project or for the purpose authorized by the Legislature. Given that PFA's powers to issue bonds are derived from 48 U.S.C. Section 1574(b), the bonds issued by PFA are subject to the limitations of said 48 U.S.C. Section 1574(b).

On August 23, 1999, the Legislature amended the V.I. Code to add a Mandatory Balanced Budget Provision. Such provisions, specifically Title 2 of the V.I. Code Section 256, provide that the amount of debt of the Government existing on October 1, 2000 shall be the debt limit of the Government, exclusive of bond principal and interest that may become due. The debt limit specified under Title 2 of the V.I. Code Section 256 does not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds. As used in Title 2 of the V.I. Code Section 256, the term "debt" means the total accumulated unpaid obligations that are due and payable, including unpaid income tax refunds, amounts owed to vendors, and current year unpaid debt service obligations, if any. As used in the statute, the term "debt" does not include that portion of principal or interest on bonds that is not yet due and payable.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**11. Long-Term Liabilities (continued)**

**Bonds Payable**

Bonds payable outstanding at September 30, 2013 are comprised of the following (thousands):

**Primary Government - Bonds Payable**

<b>Bonds Payable</b>	<b>Maturity</b>	<b>Rates (%)</b>	<b>Balance</b>
2013 Series A Revenue Refunding Bonds	2024	5.00 - 5.25	\$ 36,000
2012 Series C Revenue Bonds	2042	4.00 - 5.00	35,115
2012 Series A & B Revenue and Refunding Bonds	2032	2.25 - 5.25	228,805
2012 Series A Revenue Bonds	2032	4.00 - 5.00	142,640
2010 Series A & B Revenue Bonds	2029	4.00 - 5.25	397,060
2009 Series A Revenue Bonds (Cruzan)	2039	3.00 - 6.00	37,490
2009 Series A-1, B & C Revenue and Refunding Bonds	2040	3.00 - 5.00	396,585
2009 Series A Revenue Bonds (Diageo)	2038	6.00 - 6.75	250,000
2006 Series A Revenue Bonds	2029	3.50 - 5.00	208,875
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2004 Series A Revenue Bonds	2024	4.00 - 5.25	67,435
2003 Series A Revenue Bonds	2033	4.00 - 5.25	241,510
2001 Series A Tobacco Bonds	2031	5.00	12,645
Subtotal			2,061,450
Plus (less):			
Deferred costs on refundings			(13,272)
Bonds premium			50,122
Bonds discount			(3,533)
Bonds accretion			4,500
Total			<u>\$ 2,099,267</u>

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Bonds Payable (continued)**

On September 19, 2013, the Public Finance Authority (“PFA”) issued the 2013 Series A Revenue Refunding Bonds (the “2013 Series A Bonds”), the proceeds of which amounted to \$36.0 million. The Government has pledged matching funds, described below, for the timely payment of the principal and interest on the 2013 Series A Bonds. The 2012 Series A Bonds bear interest at rates ranging from 5.00% to 5.25%, and mature on October 1, 2018 to October 1, 2024. The bonds were issued to: (i) provide a partial advance refunding of the 2004 Series A Bonds amounting to \$14.7 million, provide a partial advance refunding of the 2009 Series A-1 Bonds amounting to \$1.6 million, and provide a partial advance refunding of the 2009 Series B Bonds amounting to \$16.7 million, (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds. The October 1, 2014 advance refunding resulted in a net present value economic gain of \$4.2 million.

The 2013 Series A Bonds maturing on October 1, in the years 2018 and 2024 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption beginning October 1, 2015.

The matching funds pledged for the payment of the bonds consist of annual advance payments received from the U.S. Department of the Treasury of excise taxes imposed and collected under the Internal Revenue laws of the United States on rum products produced in the U.S. Virgin Islands and exported to the United States from the Virgin Islands.

The amount required to be remitted to the Government by the U.S. Department of the Treasury is an amount no greater than the total amount of local revenue (primarily taxes) collected by the Government in each fiscal year. As a result, the term “matching fund revenue” is used to denote these payments.

Amounts to be received by the Government from federal rum excise tax are deposited directly into trust accounts in accordance with the Indenture of Trust for bond debt service payments. The amounts to be received are subject to adjustment for the amount of local revenue actually collected by the U.S. Department of the Treasury during such year. Prepayments of matching fund revenue are recorded as deferred revenue in the accompanying statement of net position, and recognized as income in the subsequent fiscal year.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Bonds Payable (continued)**

The rate of federal rum excise tax is determined by Congress. In November 1999, Congress increased the federal rum excise tax rate from \$10.50 to \$13.25 per proof gallon. Since then, Congress has extended the higher rate seven times. Under the American Taxpayer Relief Act of 2013, the rate was in effect through December, 31, 2013.

On September 1, 2013, PFA issued the 2012 Series A (Working Capital) Revenue Bonds, the proceeds of which amounted to \$142.6 million. The Government has pledged matching funds, described below, for the timely payment of the principal and interest on the 2012 Series A Revenue Bonds. The 2012 Series A Bonds bear interest at rates ranging from 4.00% to 5.00%, and mature from 2014 to 2032. The bonds were issued to: (i) provide working capital to the PG to finance various operating expenses, (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds.

The 2012 Series A Bonds maturing on October 1, in the years 2022, 2027, and 2032 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

On December 19, 2012, PFA issued the 2012 Series C Revenue Bonds, the proceeds of which amounted to \$35.15 million. The Government has pledged gross receipts taxes, for the timely payment of the principal and interest on the 2012 Series C Bonds. The 2012 Series C Bonds, bear interest at rates ranging from 4.00% to 5.00% and mature from 2014 to 2042.

The Series 2012 C Bonds were issued to: (i) finance the costs of certain energy and water conservation projects in the Territory (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds. The 2012 Series C Bonds maturing on October 1, in the years 2017, 2030 and 2042 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.



## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 11. Long-Term Liabilities (continued)

##### Bonds Payable (continued)

On November 20, 2012, PFA issued the 2012 Series A and B Revenue and Refunding Bonds, the proceeds of which amounted to \$228.8 million. The Government has pledged gross receipts taxes, for the timely payment of the principal and interest on the 2012 Series A and B Revenue and Refunding Bonds. The 2012 Series A Bonds, amounting to \$197.0 million, bear interest at rates ranging from 2.25% to 5.00% mature from 2013 to 2032. The 2012 Series B Bonds, amounting to \$31.7 million, bear interest at the rate of 5.25% and mature from 2013 to 2027.

The Series 2012 A Bonds were issued to: (i) refund the 1999 Series A Bonds, (ii) repay the Series 2010 A-1 and 2010 A-2 Notes, (iii) fund the debt service requirements of the bond issuance, and (iv) pay the costs of issuing the bonds. The 2012 Series A Bonds maturing on October 1, in the years 2017, 2022 and 2032 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption. The current refunding of the Series 1999 A Bonds resulted in an economic gain of net present value savings of \$7.7 million.

The Series 2012 B Bonds were issued to: (i) refinance the Series 2011 A Note (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds. The 2012 Series B Bonds maturing on October 1, 2027 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

On July 8, 2010, PFA issued the 2010 Series A and B Revenue Bonds, the proceeds of which amounted to \$399.0 million. The Government has pledged matching funds for the timely payment of the principal and interest on the 2010 Series A and B Revenue Bonds. The 2010 Series A Bonds, amounting to \$305.0 million, bear interest at rates ranging from 4.00% to 5.00% mature from 2013 to 2029. The 2010 Series B Bonds, amounting to \$94.0 million, bear interest at rates ranging from 5.00% to 5.25% and mature from 2025 to 2029.

The bonds were issued to: (i) provide working capital to the PG to finance various operating expenses, (ii) refinance a portion of the outstanding Series 2009 B1 and B2 Notes, (iii) fund the debt service requirements of the bond issuance, and (iv) to pay the costs of issuing the bonds.

The 2010 Series A Bonds maturing on October 1, in the years 2020, 2025, and 2029 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Bonds Payable (continued)**

The 2010 Series B Bonds maturing on October 1, in the years 2025 and 2029 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption

On December 17, 2009, PFA issued the 2009 Series A Revenue Bonds (the “Cruzan Bonds”) amounting to \$39.1 million. The Government has pledged matching funds generated from the sale of Cruzan rum products for the timely payment of the principal and interest of the Cruzan Bonds. The Cruzan Bonds bear interest at rates ranging from 3.00% to 6.00% and mature from 2010 to 2039. The proceeds of the Cruzan Bonds were used to: (i) finance the costs of a wastewater treatment facility and renovations at the Cruzan VIRIL, Ltd. (“Cruzan”) rum distillery on the island of St. Croix, (ii) fund debt service reserve accounts and (iii) pay the costs of issuing the bonds. The bonds maturing October 1, 2039 are subject to mandatory sinking fund redemptions beginning October 1, 2020, at a redemption price equal to 100% of the principal amount plus interest accrued to the date of redemption.

In association with the issuance of the Cruzan Bonds, the Government entered into an agreement with Cruzan on October 6, 2009, to provide marketing support payments, production incentive payments, continuation of molasses subsidies and other tax incentives to retain Cruzan as part of the rum industry in the U.S. Virgin Islands. Marketing and incentive payments to Cruzan amounted to \$44.9 million, \$33.5 million, \$54.7 million and \$3.9 million for the years ended September 30, 2013, 2012, 2011 and 2010.

On October 1, 2009, PFA issued the 2009 Series A-1, A-2, B and C Revenue and Refunding Bonds, the proceeds of which amounted to \$458.8 million. The Government has pledged matching funds for the timely payment of principal and interest on the 2009 Series A-1, A-2, B and C Revenue and Refunding Bonds. The 2009 Series A-1 Bonds amounted to \$86.3 million. The 2009 Series A-1 Bonds bear interest at rates ranging from 3.00% to 5.00% and mature from 2010 to 2039. The Series A-1 Bonds were issued to: (i) fund certain capital projects, (ii) fund debt service reserve accounts, and (iii) pay certain costs of issuing the bonds.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Bonds Payable (continued)**

The 2009 Series A-2 Bonds amounted to \$8.6 million. The 2009 Series A-2 Bonds bear an interest rate of 3.00% and mature from 2010 to 2012. The Series A-2 Bonds were issued to: (i) fund certain capital projects, (ii) fund debt service reserve accounts and (iii) pay certain costs of issuing the bonds.

The 2009 Series B Bonds amounted to \$266.3 million, bear an interest rate of 5.00%, and mature from 2010 to 2025. The 2009 Series B Bonds were issued to: (i) current refund the 1998 Series A Bonds, (ii) fund debt service reserve accounts, and (iii) pay certain costs of issuing the bonds.

The 2009 Series C Bonds amounted to \$97.5 million, bear an interest rate of 5.00% and mature from 2010 to 2022. The 2009 Series C Bonds were issued to: (i) current refund the 1998 Series E Revenue and Refunding Bonds, (ii) fund debt service reserve accounts and (iii) pay certain costs of issuing the bonds.

The current refunding of the 1998 Series A and E Bonds, on October 28, 2009, was made in order to obtain lower interest rates. The economic gain obtained by this current refunding is the difference between the present value of old debt service requirements and the new debt service.

This refunding resulted in a debt service saving of approximately \$35.9 million and an economic gain of approximately \$35.6 million.

The 2009 Series A-1, B and C Bonds are subject to mandatory sinking fund installment redemptions beginning October 1, 2020 at a redemption price equal to 100% of the principal amount, plus interest accrued, to the date of redemption.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Bonds Payable (continued)**

On July 9, 2009, PFA issued the 2009 Series A Bonds (the “Diageo Bonds”) amounting to \$250 million. The Diageo Bonds mature from 2013 to 2038 at interest rates ranging from 6.00% to 6.75%. The proceeds of the bonds were issued to: (i) provide a grant to Diageo USVI, Inc. (the producer of Captain Morgan rum products) to construct a rum distillery and warehouse on the island of St. Croix, (ii) to redeem the Subordinated Revenue Bond Anticipation Notes Series 2009A issued to finance preliminary costs of the Diageo construction project, (iii) to fund debt service reserve accounts, and (iv) to finance capitalized interest and costs associated with the issuance of the bonds.

The PG has pledged matching funds generated from the sale of Captain Morgan rum products for the timely payment of the principal and interest on the Diageo Bonds. The Diageo Bonds maturing on or after October 1, 2020 are subject to optional redemption on or after October 1, 2019, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

In association with the issuance of the Diageo Bonds, the Government entered into an agreement with Diageo USVI, Inc. on June 17, 2008, to provide marketing support payments, production incentive payments, continuation of molasses subsidies and other tax incentives to attract Diageo USVI, Inc. as part of the rum industry in the U.S. Virgin Islands. Marketing and incentive payments to Diageo USVI, Inc. amounted to \$39.1 million and \$23.1 million for the years ended September 30, 2013 and 2012.

On September 28, 2006, PFA issued the 2006 Series Gross Receipts Revenue Bonds (“2006 Series Bonds”), the proceeds of which amounted to \$219.5 million. The Government has pledged gross receipts tax revenues for the timely payment of the principal and interest on the 2006 Series Bonds. The 2006 Series Bonds bear interest at 3.50% to 5.00% and mature from 2007 to 2029. The proceeds of the bonds were issued to: (i) advance refund a portion of the Series 1999A Revenue Bonds, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund debt service reserve accounts, (v) pay certain costs of issuing the Series 2006 Bonds, and (vi) fund a net payment reserve account for a new swap agreement in connection with the refunding. The 2006 Series Bonds maturing on or before October 1, 2016 are not subject to optional redemption.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Bonds Payable (continued)**

The advance refunding of the 2020 through 2029 maturities of the 1999 Series A Bonds was made in order to obtain lower interest rates. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately \$40.8 million and an economic gain of approximately \$25.6 million.

The proceeds of the 2006 Series Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the 1999 Series A Bonds. Approximately \$180.0 million in funds were deposited into the Escrow Fund accounts. At September 30, 2013, \$162.9 million of the defeased 1999 Bonds remained outstanding.

On March 15, 2006, the Tobacco Settlement Financing Corporation (“TSFC”) issued the 2006 Tobacco Settlement Asset-Backed Bonds, Subordinated Series 2006 A, B, C & D Turbo and Capital Appreciation Bonds amounting to \$48.1 million, with an issue value of \$7.3 million (net of accretion of \$40.8 million). The bonds are secured and payable from collections including all Tobacco Settlement Revenues to be received by TSFC, reserves, amounts held in other accounts established by the indenture and TSFC’s rights under the purchase agreement. The proceeds have been used for the purpose of (i) financing several capital hospital and health development projects for the benefit of the Virgin Islands and its residents, (ii) pay certain costs of issuance relating to the Series 2006 Bonds, and (iii) fund operating costs.

Interest on the Series 2006 Tobacco Settlement Asset-Backed Bonds is not paid currently, but accretes from the date of delivery, compounded every May 15 and November 15, commencing May 15, 2006 through the final maturity date of May 15, 2035. Interest yields on the Bonds range from 6.25% to 7.63%. The series are subject to early redemption at accreted value beginning May 15, 2023, provided that the 2001 Tobacco Settlement Asset-Backed Series A Bonds have been paid in full.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Bonds Payable (continued)**

On December 1, 2004, PFA issued the 2004 Series A Bonds, the proceeds of which amounted to \$94.0 million. The Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 2004 Series A Bonds. The bonds bear interest at 4.00% to 5.25% and mature from 2005 to 2024. The proceeds of the bonds were issued to: (i) finance the planning, development, constructing, renovating, and equipping of wastewater treatment facilities and collection systems on St. Thomas and St. Croix, (ii) finance the repairs, renovations, and construction of solid waste facilities in the Territory, (iii) finance the repair and construction of public roads in the Territory, (iv) provide start-up capital for the Virgin Islands Waste Management Authority, (v) fund the Series 2004A Senior Lien Debt Service Reserve Subaccount, and (vi) pay certain costs of issuing the Series 2004A Bonds. The Series 2004A Bonds are not subject to optional redemption prior to October 1, 2014. On September 19, 2013, PFA issued the Series 2013A Bonds to partially refund the Series 2004 A Bonds for principal payments due October 1, 2013, 2017 and 2018 amounting to \$14.7 million.

On December 17, 2003, PFA issued the Series 2003A Revenue Bonds, the proceeds of which amounted to approximately \$268.0 million. The bonds were issued to: (i) repay the Government outstanding Revenue Bond Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund debt service accounts for the bond issuance, and (iv) to pay certain costs of issuing the bonds. The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the Series 2003A Revenue Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. The Series 2003A Revenue Bonds are not subject to optional redemption prior to October 1, 2014.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Bonds Payable (continued)**

On November 20, 2001, TSFC issued the 2001 Tobacco Settlement Asset-Backed Series A Bonds amounting to \$23.7 million of the aggregate principal. The proceeds were used for the purpose of (i) purchasing all rights, title, and interest in certain litigation awards under the master settlement agreement (MSA) entered into by participating cigarette manufacturers, (ii) issuance of Tobacco Settlement Asset-Backed Bonds to pay the purchase price for the rights, and (iii) to provide funds for hospital and healthcare projects in the U.S. Virgin Islands.

Interest on the 2001 bonds is payable semiannually each May and November 15 for the term bonds amounting to \$15.5 million and convertible capital appreciation bonds amounting to \$8.2 million, with a nominal value of \$6.2 million.

The convertible capital appreciation bonds accrete interest prior to November 15, 2007 and accrue interest subsequent to that date. Interest on the capital appreciation bonds will compound on May 15th and November 15th.

The 2001 Series A Tobacco Bonds payable at September 30, 2013 amounted to \$12.6 million. Under early redemption provisions, any MSA payments exceeding annual debt service requirements of the 2001 Series A Tobacco Bonds must be applied to early redemption of principal. MSA payments and interest earnings on the trust funds during the year ended September 30, 2013, resulted in early redemption of \$200 thousand during fiscal year 2013.

On November 16, 1999, PFA issued the 1999 Series A Revenue Bonds amounting to \$299.9 million. These bonds were issued to (i) pay certain working capital obligations of the Government, (ii) repay the Government outstanding tax and revenue anticipation notes, (iii) fund the Series debt service accounts, and (iv) finance certain costs of issuing the bonds.

On September 28, 2006, PFA advance refunded a portion of the 1999 Bonds with maturity dates of October 1, 2020 to October 1, 2029 totaling \$162.9 million. The proceeds of the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the bonds. Approximately \$180 million was deposited with the refunding bond escrow agent to fund the Escrow Fund accounts. At September 30, 2013, \$162.9 million of the defeased 1999 Series A Revenue Bonds remain outstanding.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**11. Long-Term Liabilities (continued)**

**Bonds Payable (continued)**

On December 14, 2012, PFA current refunded the Series 1999 A Bonds with maturity dates of October 1, 2013 to October 1, 2020 totaling \$66.8 million with the issuance of the Series 2012A Revenue and Refunding Bonds. The current refunding of the Series 1999 A Bonds resulted in an economic gain of net present value savings of \$7.7 million.

On May 1, 1998, PFA issued the 1998 Series A and B Bonds to advance refund previously issued bonds to obtain lower interest rates. The proceeds of the 1998 Series A and B Bonds were placed in an irrevocable trust account to provide for all future debt service payments on the Highway Revenue Bonds Series 1989, Series 1991, Series 1992, Series 1993, and Series 1994 Bonds. At September 30, 2013, \$88.4 million of the above-mentioned defeased bonds were outstanding.

On June 15, 1992, PFA issued the Series 1992 Revenue Bonds. The proceeds of the Series 1992 Revenue Bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1989 Revenue Bonds. At September 30, 2013, \$89.3 million of the defeased bonds were outstanding. Assets held by irrevocable trusts for refunding of prior outstanding debt and the corresponding liabilities are not included in the Government's basic financial statements.



Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

Governmental Activities – Bonds												
	Tobacco Bonds Series 2001 A		Revenue Bonds Series 2003 A		Revenue Bonds Series 2004 A		Revenue Bonds Series 2006		Tobacco Bonds Series 2006		Revenue Bonds Series 2009 A (Diageo)	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:												
2014	\$ 1,405	\$ 632	\$ 4,010	\$ 12,066	\$ 4,195	\$ 3,414	\$ 2,905	\$ 10,049	\$ –	\$ –	\$ 4,040	\$ 16,581
2015	–	562	4,210	11,861	4,405	3,200	3,015	9,901	–	–	4,290	16,332
2016	–	562	4,420	11,639	4,625	2,967	3,125	9,748	–	–	4,575	16,048
2017	–	562	4,655	11,401	4,865	2,718	3,240	9,589	–	–	4,890	15,729
2018	–	562	4,895	11,150	5,120	2,456	3,360	9,423	–	–	5,235	15,387
2019 - 2023	3,195	2,490	28,625	51,513	29,935	7,841	56,155	42,050	–	–	32,155	70,954
2024 - 2028	–	2,011	36,690	43,266	14,290	760	94,300	22,006	–	–	44,800	58,302
2029 - 2033	8,045	1,207	117,310	27,704	–	–	42,775	1,913	–	–	62,485	40,622
2034 - 2038	–	–	36,695	917	–	–	–	–	48,145	–	87,530	15,567
Less unamortized discount	–	–	–	–	–	–	–	–	(40,855)	–	–	–
Total	\$ 12,645	\$ 8,588	\$ 241,510	\$ 181,517	\$ 67,435	\$ 23,356	\$ 208,875	\$ 114,679	\$ 7,290	\$ –	\$ 250,000	\$ 265,522

	Revenue Bonds Series 2009 A-1		Revenue Bonds Series 2009 B		Revenue Bonds Series 2009 C		Revenue Bonds Series 2009 A (Cruzan)		Revenue Bonds Series 2010 A		Revenue Bonds Series 2010 B	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:												
2014	\$ 1,600	\$ 3,881	\$ 16,740	\$ 11,170	\$ 7,015	\$ 3,974	\$ 605	\$ 2,186	\$ 2,065	\$ 15,067	\$ –	\$ 4,833
2015	1,650	3,830	17,600	10,311	7,210	3,618	640	2,154	2,155	14,983	–	4,833
2016	1,705	3,773	18,505	9,409	7,745	3,244	670	2,122	2,270	14,883	–	4,833
2017	1,770	3,710	19,450	8,460	8,040	2,850	705	2,087	2,395	14,766	–	4,834
2018	1,840	3,640	20,450	7,462	8,440	2,438	740	2,051	2,520	14,643	–	4,834
2019 - 2023	10,500	16,897	102,485	20,878	44,535	5,517	4,360	9,600	31,420	70,712	3,755	23,988
2024 - 2028	13,320	14,079	36,535	3,102	–	–	5,875	8,092	159,950	48,636	61,065	15,881
2029 - 2033	17,085	10,312	–	–	–	–	7,930	6,036	100,235	5,074	29,230	1,555
2034 - 2038	21,935	5,458	–	–	–	–	10,700	3,262	–	–	–	–
2039 - 2043	10,430	528	–	–	–	–	5,265	321	–	–	–	–
Total	\$ 81,835	\$ 66,108	\$ 231,765	\$ 70,792	\$ 82,985	\$ 21,641	\$ 37,490	\$ 37,911	\$ 303,010	\$ 198,764	\$ 94,050	\$ 65,591

	Revenue Bonds Series 2012 A		Revenue & Refunding Series 2012 A		Revenue Bonds Series 2012 B		Revenue Bonds Series 2012 C		Revenue Bonds Series 2013 A		Total Government Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:												
2014	\$ –	\$ 7,044	\$ 9,030	\$ 8,037	\$ 1,430	\$ 1,629	\$ –	\$ 1,616	\$ –	\$ 976	\$ 55,040	\$ 103,155
2015	800	7,028	9,940	7,824	1,505	1,552	1,670	1,591	–	1,830	59,090	101,410
2016	825	6,995	10,815	7,590	1,585	1,470	1,720	1,540	2,210	1,774	64,795	98,597
2017	850	6,962	11,110	7,344	1,670	1,385	1,775	1,488	2,320	1,661	67,735	95,546
2018	900	6,927	11,415	7,090	1,765	1,295	1,820	1,434	7,555	1,415	76,055	92,207
2019 - 2023	5,450	34,028	27,585	30,769	10,340	4,944	8,870	5,968	18,015	3,335	417,380	401,484
2024 - 2028	7,500	32,566	40,420	24,576	13,445	1,839	2,385	4,528	5,900	310	536,475	279,954
2029 - 2033	126,315	21,850	76,750	10,078	–	–	3,680	3,821	–	–	591,840	130,172
2034 - 2038	–	–	–	–	–	–	5,775	2,606	–	–	210,780	27,810
2039 - 2043	–	–	–	–	–	–	7,420	964	–	–	23,115	1,813
Less unamortized discount	–	–	–	–	–	–	–	–	–	–	(40,855)	–
Total	\$ 142,640	\$ 123,400	\$ 197,065	\$ 103,308	\$ 31,740	\$ 14,114	\$ 35,115	\$ 25,556	\$ 36,000	\$ 11,301	\$ 2,061,450	\$ 1,332,148

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**11. Long-Term Liabilities (continued)**

**Notes Payable**

On August 22, 2013, PFA issued the Series 2013B Subordinate Lien Revenue Anticipation Note (“Series 2013B Note”) amounting to \$40.0 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2013B Note. The Series 2013B Note bears interest at 6.0% and requires payment in full by September 30th of each fiscal year under the redemption provisions of the Note. The Series 2013B Note was issued to: (i) finance a settlement with the Internal Revenue Service in connection with an audit of the Series 2006 Bonds, (ii) to finance certain operating expenses of the PG, and (iii) to fund certain costs of issuing the Series 2013B Note. On September 30, 2013, the Series 2013B Note was redeemed in full.

On May 14, 2013, PFA issued the Series 2013A Subordinate Lien Revenue Note (“Series 2013A Note”) amounting to \$6.7 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2013A Note. The Series 2013A Note bears interest at the 90 day Libor rate plus 375 points to be paid in thirty-six (36) monthly payments. The Series 2013A Note was issued to: (i) finance the acquisition of a fleet of police vehicles for the PG, and (ii) to fund certain costs of issuing the Series 2013A Note.

Debt service requirements for the Series 2013A Notes at September 30, 2013 are as follows (expressed in thousands):

<u>Year</u>	<u>Principal</u>
2014	\$ 887
2015	886
2016	591
	<u>\$ 2,364</u>

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**11. Long-Term Liabilities (continued)**

**Notes Payable**

On October 1, 2012, PFA entered into the Series 2012A Tax Increment Revenue Term Loan Note (the “Series 2012A Notes”) in the amount of \$13.7 million. The Series 2012A Notes were issued as part of a Term Loan Note Conversion of the Series 2009A Notes which were issued to provide a loan to the PG (the “Series 2009A Tax Increment Revenue Loan Note”) to finance the developmental costs of a shopping complex on the island of St. Croix. The Series 2012A Notes are a term loan with twenty quarterly payments (five years) based on a twenty-five (25) year amortization schedule, with a final payment on October 1, 2018. The Notes bear interest of 300 points above the J.P. Morgan Chase Prime Rate, or 6.25%, whichever is higher. As of September 30, 2013, PFA had \$13.5 million in outstanding Series 2012A Notes.

Debt service requirements for the Series 2012A Notes at September 30, 2013 were as follows (expressed in thousands):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 245	\$ 851
2015	261	835
2016	275	821
2017	295	801
2018	12,449	199
	<u>\$ 13,525</u>	<u>\$ 3,507</u>

On November 14, 2011, PFA entered into the 2011 Property Tax Revenue Anticipation Note (the “Series 2011B Note”) in the amount of \$13.0 million. The proceeds were used to pay incentive payments to government employees who elected to retire early under Act No. 7261 the “Economic Stability Act”, as amended by Acts No. 7270 and 7307. The Series 2011B Note is a general obligation of the PG, secured by a first priority lien on real property taxes levied for tax years up to and including tax year 2005. Also, the PG has pledged a third subordinate lien on the gross receipts taxes, along with all fines, interest, penalties and other charges related to gross receipts taxes. Interest on the Series 2011B Note accrues monthly at the rate of 4.91% until the Series 2011B Note reaches maturity on December 15, 2016. On that date, the Series 2011B Note will convert to a two year term loan. As of September 30, 2013, the outstanding amount of the Series 2011B Note was \$8.04 million.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**11. Long-Term Liabilities (continued)**

**Notes Payable**

Debt service requirements for the Series 2011B Note at September 30, 2013 were as follows (expressed in thousands):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2014	178	386
2015	—	386
2016	—	386
2017	7,865	89
	<u>\$ 8,043</u>	<u>\$ 1,247</u>

On April 29, 2011, PFA entered into the Subordinate Lien Revenue Bond Anticipation Notes (the “Series 2011A Notes”), in the amount of \$32.2 million, for the purpose of upgrading the broadband infrastructure, equipment and technology in the U.S. Virgin Islands. The Series 2011A Notes are a general obligation of the PG, secured by gross receipts taxes. Interest on the Series 2011A Notes accrued quarterly at the rate of 4.75% until the Notes reached maturity on April 29, 2013. On that date the Notes were converted to a term loan with Banco Popular de Puerto Rico in the amount of \$32.2 million at an interest rate of 6.25% for sixty (60) months. On November 20, 2012, the Series 2011A Notes were defeased with the issuance of the Series 2012 B Revenue and Refunding Bonds.

On November 4, 2010, PFA entered into the Subordinated Lien Revenue Bond Anticipation Notes (the “Series 2010A Notes”), which modified and amended the Series 2009B Notes, extending the maturity date to October 1, 2013, with a maximum amount of \$78.84 million from the Agent Lender and \$52.56 million from the Syndicate Lender. The Series 2010A Notes are a general obligation of the PG, secured by gross receipts taxes and, commencing October 1, 2013, a set-aside amount equal to four percent (4%) of matching fund revenues. The Series 2010A Notes accrue interest at a rate of 400 points above the 90-day LIBOR rate, not to be less than a minimum rate of 5.50%, with interest payments due on the first business day of the month. On December 13, 2012, the Series 2010A Notes were defeased with the issuance of the Series 2012 A Revenue and Refunding Bonds.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Notes Payable (continued)**

In August 2009, the territory reserve balance of the Unemployment Trust Fund (UTF) became inadequate to cover expenditures for unemployment compensation (UC) benefits. UC benefits are an entitlement program administered through the U.S. Treasury, and the PG is legally liable to pay benefits even if the UTF becomes insolvent. As of September 30, 2013, the PG had borrowed \$76.4 million from the U.S. Treasury.

The American Recovery and Reinvestment Act of 2009 (P.L. 111-5 Section 2004) temporarily waived interest payments on UTF loans through September 30, 2012. Beginning in 2012, the loan became subject to interest at a federal rate of 2.943% and the PG paid \$1.07 million in fiscal year 2012. As of September 30, 2013, the effective interest rate was 2.387% and the PG owed \$1.3 million in interest to the UTF.

On February 12, 2009, PFA issued the Subordinate Lien Revenue Bond Anticipation Notes ("Series 2009 Notes"), in the amount of \$8 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2009 Notes. The Series 2009 Notes initially had an interest rate of 4.75% and a due date of February 1, 2010. PFA elected a conversion of the Series 2009 Notes to term notes with principal and interest payable semi-annually on February 1 and August 1, at an interest rate of 5.40% and a maturity date of August 1, 2015. The proceeds of the Series 2009 Notes were issued: (i) to finance the purchase and installation of 911 emergency communication equipment for the Virgin Islands Police Department and (ii) to pay certain costs of issuing the Series 2009 Notes.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**11. Long-Term Liabilities (continued)**

**Notes Payable (continued)**

Debt service requirements for the Series 2009 Notes at September 30, 2013, were as follows (expressed in thousands):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2014	1,728	119
2015	899	24
Total	<u>\$ 2,627</u>	<u>\$ 143</u>

On June 1, 2008, WICO refinanced its outstanding notes payable and obtained an additional \$2.3 million in financing for infrastructure improvements. The consolidated notes amounted to \$23.6 million, to be repaid in 120 consecutive monthly installments of \$154,953 at a fixed interest rate of 6.2%, plus a final payment of the balance of principal, plus any unpaid interest, in 2018. The notes may be prepaid, in whole, or in part, at any time without penalty.

WICO has pledged all leases and revenues to secure the notes, and may not declare dividends, or issue additional equity interests without lender approval.

As of September 30, 2013, WICO was in compliance with note covenants requiring certain minimum operating revenue thresholds, and the maintenance of a debt service reserve account equal to one year's debt service payments.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**11. Long-Term Liabilities (continued)**

**Notes Payable (continued)**

Debt service requirements for the WICO loan at September 30, 2013, were as follows (expressed in thousands):

<u>Year:</u>	<u>Principal</u>
2014	\$ —
2015	603
2016	642
2017	682
2018	19,311
Total	<u><u>\$ 21,238</u></u>

On October 18, 2013, WICO entered into a refinancing loan agreement with Banco Popular de Puerto Rico amounting to \$28.5 million (“WICO loan”). Under the terms of the refinancing agreement WICO pledged: (i) operating revenues arising from the ship’s agent business, and (ii) real property and improvements referred to as the “WICO Dock” including bulkhead and wharf, warehouses, office buildings, maintenance buildings and other facilities. The purpose of the WICO loan is to: (i) repay the existing loan with the bank amounting to \$21.2 million, (ii) finance the construction and expansion of the WICO Dock and ship berthing facilities to accommodate larger cruise ships, and (iii) to fund costs associated with the issuance of the WICO loan. The WICO loan bears interest at 6.18%, and requires only interest payments during the first twelve months from the date of closing on the loan. Thereafter, the loan shall be repaid in fifty-nine (59) monthly installment payments of \$187 thousand, with a sixtieth (60), final payment of outstanding principal.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 11. Long-Term Liabilities (continued)

##### Standby Credit Facility

On October 9, 2010, PFA entered into a standby credit facility (“credit facility”) with Banco Popular de Puerto Rico in an aggregate principal amount of up to \$45.0 million. The purpose of the credit facility was to provide financial liquidity for payments required under Chapter 10 of Title 22 of the VIC upon the failure of a Virgin Islands insurance carrier. Under that legislation, the Virgin Islands Insurance Guaranty Fund was required to maintain a minimum balance of \$50.0 million for claimant payments. The credit facility was secured and payable from gross receipts taxes.

The initial term of the credit facility was three (3) years at an interest rate on drawn funds equal to the 90-Day LIBOR plus 400 basis points with a minimum rate of 5.50%, payable quarterly in advance, with an option to extend the credit facility for an additional three (3) year term.

On February 10, 2012, legislation was enacted authorizing a reduction in the minimum balance to be held by the Virgin Islands Insurance Guaranty Fund from \$50.0 million to \$10.0 million until September 30, 2015. That legislation was amended on August 9, 2013, to authorize the PG to issue bonds or notes of up to \$40.0 million on behalf of the Insurance Guaranty Fund, if necessary for claimant payments. The authorization will terminate on the earlier of (i) the date that funds on deposit in the Insurance Guaranty Fund equal \$50.0 million dollars, or (ii) March 31, 2019.

On September 9, 2013, the standby credit facility with Banco Popular de Puerto Rico was cancelled. As of September 30, 2013, the balance reported by the PG in the Insurance Guaranty Fund was \$27.1 million.



Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**11. Long-Term Liabilities (continued)**

**Component Units – Bonds Payable**

Bonds payable of discretely-presented component units are those liabilities that are paid out of resources pledged by such entities. Bonds payable, outstanding at September 30, 2013, are as follows (expressed in thousands):

<u>Bonds Payable</u>	<u>Maturity</u>	<u>Interest Rates (%)</u>	<u>Balance</u>
Virgin Islands Water and Power Authority (Electric System)			
Revenue bonds of 2012	2025	4.00 - 6.06	\$ 69,145
Revenue bonds of 2010	2033	4.00 - 6.85	76,305
Revenue bonds of 2007	2031	4.50 - 5.00	57,585
Revenue bonds of 2003	2023	4.00 - 5.00	55,855
Virgin Islands Water and Power Authority (Water System)			
Revenue bonds of 1998	2017	5.00 - 5.5	16,520
Virgin Islands Port Authority			
Series A Revenue bonds of 2003	2023	5.00 - 5.25	18,005
Series B Revenue bonds of 2003	2015	3.73 - 5.43	3,435
Series C Revenue bonds of 2003	2023	4.40	6,850
Subtotal			<u>303,700</u>
Plus unamortized premium			3,824
Less unamortized discount			(88)
Bonds payable, net			<u>307,436</u>
Less amount due within one year			<u>(15,359)</u>
Bonds payable, due in more than one year			<u>\$ 292,077</u>

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**11. Long-Term Liabilities (continued)**

**Component Units – Bonds Payable (continued)**

Following is a schedule of changes in bonds payable, loans payable and other long-term liabilities for discretely-presented component units for fiscal year ended September 30, 2013 (expressed in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due Thereafter</u>
Bonds payable:						
Virgin Islands Water and Power Authority:						
Electric System	\$ 270,335	\$ –	\$ (7,694)	\$ 262,641	\$ 10,145	\$ 252,496
Water System	19,225	–	(2,793)	16,432	2,960	13,472
Virgin Islands Port Authority	30,762	–	(2,399)	28,363	2,254	26,109
Virgin Islands Housing Finance Authority	2,150	–	(2,150)	–	–	–
Total bonds payable, net	<u>322,472</u>	<u>–</u>	<u>(15,036)</u>	<u>307,436</u>	<u>15,359</u>	<u>292,077</u>
Notes payable:						
Virgin Islands Economic Development Authority	417	–	(25)	392	24	368
Virgin Islands Water and Power Authority:						
Electric System	11,027	–	(2,679)	8,348	2,672	5,676
Virgin Islands Housing Authority	3,155	–	(1,602)	1,554	–	1,554
Virgin Islands Port Authority	1,929	–	(1,929)	–	–	–
Virgin Islands Housing Finance Authority	1,415	–	(77)	1,338	78	1,260
University of the Virgin Islands	48,917	4,580	(1,600)	51,897	1,891	50,006
Total loans payable	<u>66,860</u>	<u>4,580</u>	<u>(7,912)</u>	<u>63,529</u>	<u>4,665</u>	<u>58,864</u>
Line of credit payable:						
Virgin Islands Water and Power Authority:						
Electric System	16,875	–	–	16,875	–	16,875
Water System	2,500	–	–	2,500	–	2,500
Total line of credit payable	<u>\$ 19,375</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 19,375</u>	<u>\$ –</u>	<u>\$ 19,375</u>
Other long-term liabilities:						
University of the Virgin Islands	\$ 3,768	\$ 1,503	\$ –	\$ 5,271	\$ –	\$ 5,271
Virgin Islands Housing Authority	28,004	–	(16,635)	11,369	566	10,803
Virgin Islands Water and Power Authority:						
Electric System	31,121	4,269	–	35,390	–	35,390
Water System	6,228	873	–	7,101	–	7,101
Economic Development Authority	1,248	–	(1,134)	114	–	114
Juan F. Luis Hospital	51	400	(206)	245	205	40
Virgin Islands Housing Finance Authority	10,639	–	(905)	9,734	–	9,734
Total other long-term liabilities	<u>\$ 81,059</u>	<u>\$ 7,045</u>	<u>\$ (18,880)</u>	<u>\$ 69,224</u>	<u>\$ 771</u>	<u>\$ 68,453</u>

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Component Units – Bonds Payable (continued)**

In May 2012, the Electric System of WAPA issued the: (i) 2013A Electric System Revenues Refunding Bonds amounting to \$17.3 million; (ii) the 2013B Electric System Subordinated Revenue Bonds amounting to \$19.7 million; and (iii) the 2013C Electric System Subordinated Revenue Bonds amounting to \$32.1 million. The proceeds of the Series 2013A Bonds were used to refund the Electric System Revenue Refunding Bonds, Series 1998 and pay certain costs of issuances of the Series 2013A Bonds. The proceeds of the Series 2013B Bonds were used to refinance a portion of the Electric System Term Loan, make a deposit into the Subordinated Debt Service Reserve Fund sufficient to satisfy the Series 2013B Subordinated Debt Service Fund Requirement and pay certain costs of issuance of the Series 2013B Bonds. The proceeds of the Series 2013C Bonds were used to refinance all or a portion of the Electric System Working Capital Lines of Credit and Overdraft Credit Facility, make a deposit into the Series 2013C Subordinated Debt Service Reserve Fund sufficient to satisfy the Subordinated Debt Service Reserve Fund Requirement and pay certain costs of issuance of the Series 2013C Bonds.

In June 2011, the University of the Virgin Islands entered into two capital project loan agreements (loan agreements) in the amounts of \$44 million and \$16 million, with Rice Capital Access Program, LLC. The purpose of the capital project loans was to: (i) advance refund the University's 1999 Series A Bonds and 2004 Series A Bonds, and (ii) to pay for construction costs of a 100 bed student residence facility and other construction improvement costs of facilities on the St. Thomas and St. Croix campuses. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old outstanding bonds of approximately \$4.5 million and an economic gain of \$6.8 million.

In March 2010, the Electric System issued the \$39 million 2010A Electric System Revenue Refunding Bonds; the \$9 million 2010B Electric System Revenue Bonds; and the \$37 million 2010C Electric System Revenue Refunding Bonds. The proceeds of the Series 2010A Bonds were used to: i) refund a portion of the Electric System Revenue Refunding Bonds, Series 1998, and ii) pay certain costs of issuance of the Series 2010A Bonds. The proceeds of the Series 2010B and 2010C Bonds were used to: i) finance certain capital expenditures temporarily funded through draws on a line of credit (\$9 million) and, ii) to make certain deposits into the Debt Service Revenue Fund sufficient to satisfy the Debt Service Reserve Fund requirement. The proceeds of the three series were also used to pay certain costs of issuance of the 2010A, 2010B, and 2010C Revenue and Refunding Bonds.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Component Units – Bonds Payable (continued)**

In June 2007, the Electric System issued the \$57.6 million 2007A Electric System Subordinated Revenue Bonds, to pay certain costs of issuance of the bonds, to finance the costs of certain capital improvements, refinance capital improvements funded through draws on a Line of Credit and to reinstall a \$10.0 million Line of Credit.

In June 2003, the Electric System issued the Electric System Revenue Bonds, Series 2003, amounting to \$69.9 million. The proceeds from the bonds were used to finance capital improvements, repay \$18.0 million of then outstanding lines-of-credit, cover underwriters' costs, and establish a debt service fund. The Series 2003 Bonds maturing on or after July 1, 2023 are subject to redemption prior to their stated maturity date, at the option of the Electric System, on or after July 1, 2013, as a whole or in part at any time, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

In June 1998, the Electric System issued \$110.9 million of 1998 Series A Electric System Revenue and Refunding Bonds. The proceeds from the bonds, and approximately \$14 million in funds from the existing debt service and debt service funds, were used to repay outstanding line-of-credit balances, to provide for approximately \$30.0 million in funds for the construction of certain capital projects, and to pay underwriters discount and issuance costs of approximately \$1.7 million. The remaining proceeds were used to purchase direct obligations of the U.S. government which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining \$69.0 million principal amount of the 1991 Series A Electric System Revenue Bonds.

Under the terms of the Bond Resolution relating to the Electric System Revenue and Refunding Bonds, payment of the principal and interest is secured by an irrevocable lien on the Electric System's net revenue, (exclusive of any funds that may be established pursuant to the Bond Resolution for certain specified purposes), including the investments and income, if any, thereof.

Under the General Resolution, the Authority is required to maintain a Debt Service coverage ratio at least equal to 1.25 times (125%) the principal of and interest on all Outstanding Senior Bonds for the current and each future fiscal year (the Senior Coverage).

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Component Units – Bonds Payable (continued)**

Under the Electric System Subordinated Revenue Bond Resolution, adopted by the Authority on May 17, 2007, as amended and supplemented (the Subordinated Bond Resolution), the Authority must satisfy the Debt Service coverage ratio of the General Resolution for the Senior Bonds, must maintain a Subordinated Debt Service coverage ratio at least equal to 1.15 times (115%) the principal of and interest on all Outstanding Bonds (the Senior and Subordinate Coverage) and all Outstanding Subordinated Bonds for the current and each future fiscal year, and must maintain at least 1.0 times (100%) the Maximum Aggregate Debt Service for each such fiscal year (total debt coverage).

For the year ended June 30, 2013, the Authority's debt coverage ratio was 216% for senior coverage, 137% for senior and subordinate coverage and 116% for total debt coverage. Section 606(2) of the Subordinated Bond Resolutions provides that if the Authority fails to achieve the required coverage ratios, then the Authority must "take whatever steps it can to produce the amount of net electric revenues required in the following year". Section 701(3) of the Subordinated Bond Resolutions further provides that if the covenant default continues for 60 days after notice of default without the Authority proceeding with diligence to cure the default. The Authority believes it is taking such steps currently to ensure future compliance with required debt coverage ratios.

The Electric System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the Electric System was damaged, destroyed, taken, or condemned, or (ii) any for-profit nongovernmental investor shall acquire an ownership interest in some or all of the assets of the Electric System.

In December 1998, the Water System of WAPA issued the 1998 Water System Revenue and Refunding Bonds amounting to \$44.2 million. The proceeds from the bonds were used to repay the 1990 Series A Water System Revenue Bonds at a redemption price of 100% and to refund the 1992 Series B Water System Revenue Bonds, repay outstanding lines of credit balances, pay underwriters' costs, provide funding for a Renewal and Replacement Reserve Fund, and to purchase obligations of the United States Government, which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining principal amount of the 1992 Series B Bonds.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Component Units – Bonds Payable (continued)**

Payment of principal and interest of the 1998 Series Bonds is secured by an irrevocable lien on the Water System's net revenues (exclusive of any funds that may be established pursuant to the Bond Resolution for certain other specified purposes) and funds established under the Bond Resolution, including investment securities. To provide additional security, the Water System has conveyed to the bond trustee, a subordinate lien and security interest in the Water System's General Fund. The Water System is also required to make deposits in a debt service reserve fund in accordance with the Bond Resolution.

The Bond Resolution contains certain restrictions and commitments, including the Water System's covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net water revenue, as defined, that will be at least 125% of aggregate annual principal and interest payments. The Water System's net water revenue for the fiscal years ended June 30, 2013 and 2012 was 174% and 42% of the aggregate debt service as defined in the Bond Resolution. Section 606(2) of the Bond Resolution provides that if the Authority fails to achieve the 125% coverage, the Authority must "take whatever steps it can to produce the amount of net water revenue required in the following fiscal year". Section 701(3) of the Bond Resolution defines this as a condition of default unless the Authority is proceeding with diligence to cure such default. The management of the Water System advises it is taking necessary steps to ensure future compliance with debt coverage ratios.

The 1998 Series Bonds maturing on or after July 1, 2010 are subject to redemption prior to their stated maturity date, at the option of the Water System, as a whole or in part at any time, at a redemption price of 101% through June 30, 2010 and 100% thereafter. The Water System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the water system shall be damaged, destroyed, taken, or condemned or (ii) any for-profit non-governmental investor shall acquire an ownership interest in some or all assets of the Water System.

In January 2003, VIPA issued the Marine Revenue Bonds Series 2003A (AMT) and 2003B (federally taxable) with principal amounts of approximately \$18 million and \$17.4 million, respectively. VIPA is using the proceeds of the bonds to finance the dredging, rehabilitation, and construction of berthing piers for cruise and seagoing vessels at Crown Bay in St. Thomas, and the construction of a mixed used commercial facility.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **11. Long-Term Liabilities (continued)**

##### **Component Units – Bonds Payable (continued)**

In October 2003, VIPA issued the Marine Revenue Bonds Series 2003C (non-AMT), with an authorized principal amount not to exceed approximately \$10.8 million. VIPA used the proceeds of the bonds to finance the completion of several projects of rehabilitation and construction of berthing piers and dredging for cruise and seagoing vessels at Crown Bay on the island of St. Thomas, and the construction at Red Hook, Enighed Pond, Gallows Bay Dock, and dredging of the Charlotte Amalie Harbor.

The bonds' indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance, and other costs as specified in the corresponding bond indentures. The bonds' indentures also specify certain debt service coverage requirements determined from net available revenue (as defined) of the Authority's Marine Division. The provisions of each of the bonds' indentures require that rates and fees charged for the use of each facility should be sufficient to generate enough revenue to pay all operation and maintenance expenses, exclusive of depreciation and certain noncash charges, of the respective facilities, plus: (i) at least 125% of the principal and interest and redemption account sinking fund deposit requirement of each of the bonds becoming due during such year; (ii) the amount of the debt service reserve fund deposit requirement for such period; (iii) the deposit required to the Renewal and Replacement Fund; and (iv) the amount of the capital improvements appropriations for such period.

For the year ending September 30, 2013, VIPA did not comply with the requirement to issue the audited financial statements within 150 days after year-end. However, as per the Authority's bond indenture, this noncompliance event does not constitute an event of default until the Trustee sends a notification of failure and such failure continues for 90 days. VIPA did receive notification from its Trustee, but noncompliance was covered within the 90 days.

In August 1998, VIHFA issued the 1998 Revenue Bonds Series A in the amount of \$3.0 million, and on March 1, 1995, VIHFA issued the 1995 Revenue Bonds Series A in the amount of \$6.2 million, for the purpose of building single-family housing. The indenture agreements for the bonds require the VIHFA to deposit with the trustee the full amount of the bond proceeds, to purchase Government National Mortgage Association (GNMA) certificates. The servicer is obligated to pay the principal and interest due on the GNMA certificates to the trustee in an amount equal to the scheduled principal and interest payments of the underlying mortgages. All mortgage loans issued by the VIHFA must be originated by the participants and secured by a first priority mortgage lien on the applicable single-family residences.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**11. Long-Term Liabilities (continued)**

**Component Units – Bonds Payable (continued)**

Fixed maturities required to pay principal and interest on discretely-presented component units' bonds payable with fixed maturities at September 30, 2013 are as follows (expressed in thousands):

Year	Principal	Interest	Total
2014	\$ 15,345	\$ 14,641	\$ 29,986
2015	16,040	13,952	29,992
2016	16,785	13,206	29,991
2017	17,605	12,377	29,982
2018	15,745	11,516	27,261
2019 - 2023	86,265	62,244	148,509
2024 - 2028	74,645	28,288	102,933
2029 - 2033	53,590	9,106	62,696
2034 - 2036	7,680	795	8,475
Total	303,700	\$ 166,125	\$ 469,825
Plus unamortized premium	3,824		
Less unamortized discount	(88)		
Bonds payable, net	\$ 307,436		



Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**12. General Tax Revenue**

For the year ended September 30, 2013, general tax revenue of the PG consisted of the following (expressed in thousands):

	<u>General</u>	<u>PFA Debt Service</u>	<u>PFA Capital Projects</u>	<u>Other Governmental</u>	<u>Total</u>
Income taxes	\$ 316,026	\$ –	\$ –	\$ –	\$ 316,026
Real property taxes	94,086	–	–	9,885	103,971
Gross receipts taxes	1,475	152,312	1,946	250	155,983
Excise taxes rum products	176,900	96,907	–	4,885	278,692
Other taxes	<u>52,513</u>	<u>–</u>	<u>–</u>	<u>7,593</u>	<u>60,106</u>
Tax revenue	<u>\$ 641,000</u>	<u>\$ 249,219</u>	<u>\$ 1,946</u>	<u>\$ 22,613</u>	914,778
Tax revenue recognized on the full accrual basis					<u>(19,774)</u>
Total tax revenue - government-wide					<u>\$ 895,004</u>

**13. Governmental Fund Balances**

For the year ended September 30, 2012, the PG implemented Statement No. 54 of the Governmental Accounting Standards Board, “*Fund Balance Reporting and Governmental Fund Type Definitions.*” This Statement establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The classifications reported by the PG include: nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance.

The PG utilizes the classification of: (i) nonspendable fund balance to report prepaid expenses, (ii) restricted fund balance to report debt service accounts, (iii) committed fund balance to report fund balances restricted by grantors, external parties, regulations and litigation, (iv) assigned fund balances to report those funds assigned by the legislature, boards and authorities of the PG, and (v) unassigned fund balances of the General Fund.

The PG’s policy is to expend unassigned fund balances before assigned, committed or restricted balances.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**13. Governmental Fund Balances (continued)**

Following is a detail of the aggregated fund balances presented in the Balance Sheet – Governmental Funds as of September 30, 2013:

	<u>General</u>	<u>PFA Debt Service</u>	<u>PFA Capital Projects</u>	<u>Other Governmental</u>	<u>Total</u>
<b>Fund balances:</b>					
<b>Restricted for:</b>					
Debt Service	\$ –	\$ 276,429	\$ –	\$ –	\$ 276,429
Capital Projects	–	–	106,767	–	106,767
General Government	–	–	–	–	–
Public Safety	–	–	–	–	–
Health	–	–	–	–	–
Public Housing and Welfare	–	–	–	–	–
Education	–	–	–	–	–
Transportation and Communication	–	–	–	–	–
Culture and Recreation	–	–	–	–	–
<b>Total Restricted</b>	<u>–</u>	<u>276,429</u>	<u>106,767</u>	<u>–</u>	<u>383,196</u>
<b>Committed to:</b>					
General Government	26,749	–	–	17,760	44,509
Public Housing and Welfare	–	–	–	82	82
Transportation and Communication	–	–	–	9,034	9,034
Culture and Recreation	565	–	–	341	906
<b>Total Committed:</b>	<u>27,314</u>	<u>–</u>	<u>–</u>	<u>27,217</u>	<u>54,531</u>
<b>Assigned to:</b>					
General Government	–	–	–	28,909	28,909
Public Safety	–	–	–	(4,351)	(4,351)
Health	–	–	–	3,977	3,977
Public Housing and Welfare	–	–	–	28,457	28,457
Education	–	–	–	(18,252)	(18,252)
Transportation and Communication	–	–	–	8,767	8,767
Culture and Recreation	–	–	–	319	319
<b>Total Assigned</b>	<u>–</u>	<u>–</u>	<u>–</u>	<u>47,826</u>	<u>47,826</u>
<b>Unassigned</b>	<u>(37,260)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(37,260)</u>
<b>Total Fund Balances</b>	<u>\$ (9,946)</u>	<u>\$ 276,429</u>	<u>\$ 106,767</u>	<u>\$ 75,043</u>	<u>\$ 448,293</u>

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **13. Governmental Fund Balances (continued)**

The assigned fund balance includes approximately \$44.7 million in unexpended encumbrances. Encumbrances are utilized to determine commitments related to unperformed (executor) contracts for goods and services, and to prevent the over-spending of an appropriation.

#### **14. Commitments and Contingencies**

##### **Primary Government**

##### ***Collective Bargaining Agreements***

The current labor relations environment of the Government is defined by 13 distinct labor organizations subject to approximately 26 collective bargaining agreements. Fourteen bargaining units are without collective bargaining agreements. As specific disciplines are not grouped under a single pay plan, it is common to have clerical and nonprofessional workers in different departments throughout the Government, represented by different unions. Of the approximately 9,600 government workers, including employees of the executive branch of the Government, approximately 7,200 belong to unions. The present collective bargaining statute requires binding arbitration for certain classified employees in the event of an impasse during salary negotiations between the Government and any union. Under this process, each side chooses an arbitrator and a third impartial arbitrator is selected by the chosen arbitrators. The arbitration panel investigates and reviews the issues in dispute and renders a final and binding decision. For other classified employees, the Government must decide to go to impasse or to enjoin any strike.

As of September 30, 2013, the Government has contractual liabilities for retroactive union arbitration salary increases estimated at \$195.3 million accruing from fiscal years 1993 through 2013, as established by the Virgin Islands Retroactive Wage Commission.

Under Title 24, Section 374(h) of the Virgin Islands Code, the PG may not make any payments of retroactive salaries until there is an appropriation of funds by the Legislature.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **14. Commitments and Contingencies (continued)**

##### **Primary Government (continued)**

###### *Federal Assistance Programs*

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Loans received are described in Note 11. Monetary and nonmonetary federal financial assistance to governmental funds amounted to approximately \$214.6 million and \$26.7 million for operation and capital contributions, respectively, for the year ended September 30, 2013.

In February 2009, the federal government passed the American Recovery and Reinvestment Act (“ARRA”) to create jobs and stimulate the economy. Under Title I, Section 1001(b) of ARRA, the federal government acknowledged that certain refundable tax credits authorized by the Act imposed an economic hardship on United States territories that operate under “mirror” income tax systems. To alleviate this economic hardship, Congress provided for federal loss reimbursements to the mirrored system territories. During fiscal years 2009, 2010, and 2011, the PG received \$23.4 million, \$21.1 million and \$7.7 million in loss reimbursements for the Making Work Pay refundable tax credit. During fiscal year 2011 and 2012, the PG received \$18.6 and \$5.1 million in loss reimbursements of the Additional Child Tax refundable tax credit.

Receipt of grants and loss reimbursements is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under OMB Circular A-133. Disallowances as a result of these audits may become liabilities of the Government.

Management of the Government believes that the future outcome of any changes in federal financial assistance programs will not have a material adverse effect on the basic financial statements.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **14. Commitments and Contingencies (continued)**

##### **Primary Government (continued)**

###### ***Compliance Agreement U.S. Department of Education***

On September 23, 2002, the Government entered into a three-year compliance agreement with the U.S. Department of Education requiring that the Government develop integrated and systemic solutions to problems in managing its federally funded education programs. The compliance agreement focuses on the areas of program design and evaluation, financial management, human capital, and property management and procurement. The compliance agreement expired on September 23, 2005. The Government had not fully complied with all terms and conditions of the compliance agreement. The U.S. Department of Education subsequently implemented a special condition for the Government to designate a third-party fiduciary to administer U.S. Department of Education grants.

On August 22, 2006, the PG entered into a contract with a third-party fiduciary to administer U.S. Department of Education grants, effective October 1, 2006. The terms and conditions of the original compliance agreement have been extended until the Government is in full compliance with the agreement.

###### ***Legal Proceedings and Litigation Claims***

The Government is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Title 33, Section 3411(c) of the V.I. Code, no judgment shall be awarded against the Government in excess of \$25,000 for tort claims filed under Government statutes. In cases involving several survivors, each award must be construed separately for purposes of applying the limitation upon recovery imposed by the Tort Claims Act. Under Title 27, Section 166(e) of the V.I. Code, the Government's waiver of immunity is expanded to \$250,000 for medical malpractice actions, including actions for wrongful death based on malpractice. Under certain circumstances, as provided in Title 33, Section 3414 of the V.I. Code, the Government may assume the payment of a judgment entered against an officer or employee who acted reasonably and within the scope of his employment. The Government may pay up to a maximum amount of \$100,000 of the settlement. With respect to pending and threatened litigation, the Government has accrued a provision for legal claims and judgments of approximately \$13.0 million for awarded and anticipated unfavorable judgments as of September 30, 2013. Management believes that any liability in excess of amounts recorded will not have a material effect on the basic financial statements.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**14. Commitments and Contingencies (continued)**

**Primary Government (continued)**

*Legal Proceedings and Litigation Claims (continued)*

Changes in the reported provision for legal claims since October 1, 2011, resulted from the following activity (expressed in thousands):

	<b>Beginning Balance at October 1, 2011</b>	<b>New Claims</b>	<b>Claim Payments and Changes in Estimates</b>	<b>Ending Balance at September 30, 2012</b>
Provision for legal claims	\$ 27,263	\$ 1,252	\$ (15,607)	\$ 12,908

	<b>Beginning Balance at October 1, 2012</b>	<b>New Claims</b>	<b>Claim Payments and Changes in Estimates</b>	<b>Ending Balance at September 30, 2013</b>
Provision for legal claims	\$ 12,908	\$ 7,956	\$ (7,810)	\$ 13,054

The breakdown of the provision for legal claims at September 30, 2013 is as follows (expressed in thousands):

<b><u>Governmental activities</u></b>	
Current portion of provision for legal claims	\$ 137
Long-term portion of provision for legal claims	12,917
	<u>\$ 13,054</u>

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **14. Commitments and Contingencies (continued)**

##### **Primary Government (continued)**

###### *Property Tax Assessments*

As of September 2002, the Government was a defendant in a lawsuit regarding the assessment of property taxes. Under the lawsuit, taxpayers asserted that properties should be assessed at actual value in accordance with the Organic Act of 1933. The U.S. District Court agreed with the plaintiffs and, in May 2003, imposed an injunction on the collection of real property taxes at values higher than the 1998 assessed value. The Government complied with the Court order to develop a plan to implement the new valuation method. In February 2007, the 2005 property tax assessments, based on 1998 assessment levels, were issued. In August 2008, the 2006 property tax assessments, based at actual value in accordance with the Organic Act of 1933, were issued. In September 2008, the 2006 property tax bills were rescinded by court order. In May 2009, the Government received court approval to reissue the 2006 property tax assessments; however, that approval was rescinded in June 2009. The Government subsequently issued the 2006, 2007 and 2008, 2009 property tax assessments, based on 1998 assessment levels. The 2010, 2011 and 2012 property tax assessments were issued in June 2012, February 2013 and July 2013 at the 2008 assessment levels.

###### *Landfill Closure and Post-Closure Costs*

Federal laws and regulations, including the Clean Air Act, 42 U.S.C. § 7401 *et seq.* (“CAA”), and regulations promulgated thereunder, including the federal standards set forth in 40 C.F.R. Part 62, Subpart GGG (“Federal Plan”), and the National Emission Standards for Hazardous Air Pollutants for Municipal Landfill Maximum Achievable Control Technology, set forth in 40 C.F.R. Part 63, Subpart AAAA (“Landfill MACT”), and the Solid Waste Disposal Act, 42 U.S.C. § 6901 *et seq.* (“RCRA”), and regulations promulgated thereunder, including federal municipal solid waste landfill operating, closure, and post-closure criteria set forth in 40 C.F.R. Part 258, and three EPA administrative orders issued pursuant to RCRA § 7003(a), 42 U.S.C. § 6973(a), and Territorial laws and regulations, including V.I. Code Title 19, Chapter 56 (Solid and Hazardous Waste Management), Title 12, Chapter 9 (Air Pollution Control), and Title 12, Chapter 21 (Virgin Islands Coastal Zone Management), and regulations promulgated thereunder, require the Government to construct and operate certain environmental control systems and otherwise comply with certain requirements during operation of each of its landfill sites, properly close the site (including placement of a final landfill cover) when the landfill (or portion thereof) stops accepting waste, and perform certain post-closure maintenance and monitoring functions at the site for 30 years following closure. Compliance costs during the operational phase will be paid prior to closure.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**14. Commitments and Contingencies (continued)**

**Primary Government (continued)**

***Landfill Closure and Post-Closure Costs (continued)***

Although closure and post-closure costs will be paid only near or after the date that the landfill stops accepting waste, the Government reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$95.8 million reported as landfill compliance, closure, and post-closure care liability at September 30, 2013, represents the cumulative amount reported to date based on the use of the estimated capacity of each landfill. The Government will recognize the remaining estimated cost of closure and post-closure care as the remaining estimated capacities are filled. These amounts are based on what it would cost to perform all closure and post-closure care as of September 30, 2013.

The estimated used capacity and expected closure of each of the Government landfills is as follows:

<u>Landfill</u>	<u>Estimated used capacity</u>	<u>Estimated closure date</u>
Bovoni	66%	2020
Angilla	100%	Closed
Susannaberg	100%	Closed

The actual cost to perform closure and post-closure may be higher due to inflation, changes in technology, or changes in regulations. The Government is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The Government began making annual contributions to a trust in fiscal year 2007 to finance closure and post-closure costs. The Government expects that future inflation costs will be paid from interest earnings on these annual contributions and other financing measures. However, if interest earnings and financing measures should prove to be inadequate, or additional post-closure care requirements are determined due to changes in technology or applicable laws or regulations, these costs may need to be covered by charges to future landfill users.



## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **14. Commitments and Contingencies (continued)**

##### **Primary Government (continued)**

###### ***Wastewater Treatment Plant Consent Decree***

Since 1985, the Government has been subject to a consent decree issued by the Virgin Islands District Court, governing the operation of its wastewater treatment plants. The consent decree was amended in 1996 and further modified with the 2002 Stipulation to the Amended Consent Decree (the Stipulation) to establish deadlines for the construction of new secondary treatment facilities, including the replacement of the existing St. Croix and Airport Lagoon (Charlotte Amalie) wastewater treatment plants. The Stipulation requires that the new St. Croix wastewater treatment plants be completed by the end of 2006 and the new Charlotte Amalie wastewater treatment plants be completed by the end of 2007. The cost of both facilities is estimated at approximately \$50 million. The Stipulation also establishes certain interim deadlines and performance standards that must be met by the Government pending completion of the new facilities. In addition, the Stipulation establishes specified penalties for violation of any of the deadlines or performance standards set forth therein. As of the date of the basic financial statements, the Government is current on all of its outstanding obligations pursuant to the stipulation. In January 2004, the Government's Legislature authorized the creation of the Virgin Islands Waste Management Authority (WMA) for the purpose of meeting environmental requirements of waste treatment in the U.S. Virgin Islands. On December 2004, the PFA issued revenue bonds amounting to \$94 million for the purpose of constructing and rehabilitating wastewater treatment plants noted above.

###### ***Memorandum of Understanding - EPA***

On August 21, 2002, the Government and the United States Environmental Protection Agency (EPA) entered into a memorandum of understanding documenting the EPA's agreement to support the renewal of the Territorial Pollutant Discharge Elimination System permit for its St. Croix distillery operations provided that the Government make certain funding available to (1) conduct treatability studies regarding the Virgin Islands Rum Industries, Ltd. effluent and the means to mitigate its potential environmental effects in the vicinity of the discharge, (2) identify practicable, available, reliable, and cost-effective potential mitigation measures, and (3) implement (or assist in the implementation of) such mitigation measures in the event such measures are determined by the V.I. Department of Planning and Natural Resources after consultation with EPA to be necessary and appropriate.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**14. Commitments and Contingencies (continued)**

**Primary Government (continued)**

***Memorandum of Understanding – EPA (continued)***

Pursuant to the memorandum of understanding, the Government's obligation to fund such activities is limited to \$6 million in the aggregate, commencing on October 13, 2003. In June 2004, the Government entered into a three year contract with a locally licensed environmental consulting firm to facilitate the Government's commitments with the memorandum of understanding with the EPA.

***Workers' Compensation Liability***

The Government is exposed to risk of loss related to workers' compensation claims. The Government is self-insured for this risk. Self-insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the claims liability amount in fiscal year 2013, as recorded in the Government Insurance Fund was as follows (expressed in thousands):

	<b>2012</b>	<b>2013</b>
Claims payable - October 1	\$ 20,342	\$ 26,661
Incurred claims and changes in estimates	10,878	9,903
Payments for claims and adjustments expenses	(4,559)	(12,773)
Claims payable - September 30	<u>\$ 26,661</u>	<u>\$ 23,791</u>

The Government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **14. Commitments and Contingencies (continued)**

##### **Primary Government (continued)**

###### ***Bond Credit Ratings***

On February 12, 2013, Moody's Investors Service withdrew the ratings on the U.S. Virgin Islands general obligation gross receipts tax debt, issued through PFA, due to the lack of sufficient financial and operating information, and the late issuance of the 2010 audited financial statements. On October 15, 2013, Fitch Ratings affirmed a BBB rating for general obligation gross receipts tax debt of the PFA.

On August 4, 2013, Moody's assigned a Baa2 rating to the issuance of the Series 2013A matching fund bonds. On August 29, 2013 Fitch downgraded the U.S. Virgin Islands matching fund bonds from a BBB rating to a BBB- rating due to revised projections based on alcohol content of Captain Morgan products.

###### ***Pension Reform Joint Task Force***

In response to a recommendation in a September 27, 2011 audit report from the Office of the Inspector General, U.S. Department of Interior, the PG formed the Pension Reform Joint Task Force (the "Task Force") to address the declining fiscal condition of the Government Employees Retirement System. The Office of the Inspector General's audit report had concluded that, due to insufficient contribution levels, and an unbalanced ratio of active to retired members, the retirement system of the U.S. Virgin Islands may default within 14 to 19 years. The Task Force recommendations, presented to the Legislature in May 2013, included: (i) have the government and its employees contribute a larger amount towards pension benefits, (ii) raising contribution rates for senators and judges, (iii) reducing retiree's current benefits by 10 percent, (iv) increasing the early retirement age from 50 to 55 and the regular retirement age from 60 to 65, (vi) limiting the cost of living increase, and (vii) changing the formula used to calculate benefits. The Task Force continues to work with the Legislature, and hearings were held at the Legislature in May 2014.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **14. Commitments and Contingencies (continued)**

##### **Component Units**

In September 1989, WAPA Electric facilities were damaged by Hurricane Hugo. WAPA reconstructed the facilities with proceeds from insurance and FEMA. Subsequent to the receipt of funds, FEMA de-obligated approximately \$7.9 million in questioned costs. Approximately \$2.6 million of these questioned costs related to an oil spill that was subsequently settled with FEMA. During 1998, WAPA submitted a second appeal for \$4.4 million of the remaining questioned costs, and agreed to refund approximately \$900 thousand of questioned costs to FEMA. During 1999, FEMA denied the second appeal and formally closed the disaster claim. WAPA has recorded a liability for \$4.6 million related to the questioned costs. FEMA has not made a formal request for repayment of the funds.

In October 2008, WAPA Electric facilities on the island of St. Croix were damaged by Hurricane Omar. WAPA expended \$2.7 million for storm cleanup and system restoration through June 2010. The territory was declared a federal disaster after the hurricane and is eligible for reimbursement of 75% of what was expended according to the category of the damage. WAPA Electric has recorded a receivable from FEMA through the Office of Management and Budget – Public Assistance (OMB-PA) amounting to approximately \$2.1 million.

In August 2010, WAPA Electric facilities were damaged by Hurricane Earl. WAPA has expended over \$2 million for storm clean-up and restoration, which was completed in October 2010. The territory was declared a Federal disaster area after the Hurricane and is eligible for reimbursement of 75% - 80% of what was expended according to the category damage. WAPA recorded a receivable of \$1.1 million from FEMA through the Virgin Islands Territorial Emergency Management Agency (VITEMA) Public Assistance Program as of June 30, 2013.

On September 30, 2011, WAPA Electric entered into a Memorandum of Agreement (MOA) with viNGN, Inc., a Virgin Islands corporation and wholly owned subsidiary of the PFA. The MOA terms call for WAPA Electric to provide in-kind contributions in connection with a federal grant received by viNGN, Inc. The in-kind contributions consist of the use of certain facilities, equipment and communications infrastructure. The total in-kind match value budgeted by WAPA was \$15.2 million. The term of the MOA is twenty-five (25) years upon execution, with two additional twenty-five (25) year terms unless either party provides a written notice of non-renewal not less than twelve (12) months, but no sooner than twenty-four (24) months prior to the expiration of the original term or any additional term.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **14. Commitments and Contingencies (continued)**

##### **Component Units (continued)**

In 2011, the Water System of WAPA entered into two agreements with a private company to build, operate and maintain two reverse osmosis facilities, one on St. Croix and one on St. Thomas, and sell the water from the facilities to WAPA. The agreements both have 20 year terms expiring through 2032.

In 2002, the Federal Aviation Administration (FAA) conducted an on-site wildlife evaluation of the Anguilla Landfill, which is located next to the St. Croix airport. The FAA determined that the landfill posed an environmental and navigational threat to the airport due to flocks of birds that reside in the landfill area. The FAA stated it may require the VIPA to repay \$9.3 million in federal grants and has refused further discretionary grants for the airport until VIPA shows progress toward closing the landfill. The matter was mitigated in fiscal year 2013, and VIPA is now eligible for grants.

In 2009, the Anguilla Landfill was transferred to the jurisdiction of the WMA. WMA subsequently entered into a consent decree with EPA, extending the closure date of the landfill to the year 2020, while diverting incoming solid waste to a newly constructed transfer station. Under the consent decree, WMA must pay penalties of \$50 thousand in installment of \$12.5 thousand for the years ending September 30, 2012 through 2016.

The Governor Juan F. Luis Hospital and Medical Center owns a 40% interest in a radiology practice that operates within the hospital. The radiology practice pays rent to the hospital and the hospital pays for services to hospital patients. As of September 30, 2013 and 2012, the hospital owed the radiology practice \$7.8 and \$6.6 million. As a result of the unpaid service fees, the hospital incurred an impairment loss of \$375 thousand for the year ending September 30, 2013 and \$2.4 million for the year ending September 30, 2012, in its investment in the radiology practice.

WAPA, VIPA, and other discretely-presented component units are presently a defendant or codefendant in various lawsuits. The financial managers of the component units have advised the PG that any adverse outcome involving a material claim is expected to be substantially covered by insurance. Government property is exempt from lien, levy, or sale as a result of any judgment under the Virgin Islands Code.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**15. Retirement Systems**

**Plan Description**

GERS is the administrator of a cost-sharing, multiple-employer, defined-benefit pension plan established as of October 1, 1959 by the Government to provide retirement, death, and disability benefits to its employees. The following description of the plan is provided for general information purposes only. Refer to the actual text of the retirement law in the V.I. Code, Title 3, Chapter 27 for more complete information. Regular employees are eligible for a full-service retirement annuity when they have completed 30 years of credited service or have attained the age of 60 with at least 10 years of credited service. Members who are considered “safety employees,” as defined in the V.I. Code, are eligible for full retirement benefits when they have earned at least 20 years of government service or have reached the age of 55 with at least 10 years of credited service. Regular employees who have attained the age of 50 with at least 10 years of credited service can elect to retire early with a reduced benefit. Senators and members of the Legislature may receive a retirement annuity when they have attained the age of 50 and upon the completion of 6 years of credited service as a member of the Legislature.

Membership of the System consisted of the following at September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitle to benefits but not yet receiving them	\$ 8,653	\$ 8,151
Current employees	<u>9,241</u>	<u>9,935</u>
	<u>\$ 17,894</u>	<u>\$ 18,086</u>

**Funding Policy**

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member’s average compensation. Average compensation is determined by averaging the five highest years of salary the member earned within the last ten years of service, subject to the maximum salary limitation in effect during such service. The maximum annual salary that can be used in this computation is \$65,000, except for senators and judges, whose annual salary is used. The board of trustees of GERS may set cost-of-living increases for annuitants and pensioners and determine when the annuity should be paid on the basis of the most recent actuarial valuation and the Consumer Price Index.

# Government of the United States Virgin Islands

## Notes to Basic Financial Statements (continued)

### 15. Retirement Systems (continued)

#### Funding Policy (continued)

GERS is a blended component unit included in the financial reporting entity and is presented as a pension trust fund of the PG. GERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Employees' Retirement System of the Government of the Virgin Islands, 3438 Kronprindsens Gade, St. Thomas, Virgin Islands 00802.

Contributions to GERS are made by the Government and the members. Government and members contributions are not actuarially determined but are set by statute. The Government and members' contributions together with the income of GERS should be sufficient to provide an adequate actuarially determined reserve for the benefits prescribed by the VI Code.

The contributions required to fund GERS on an "actuarial reserve basis" are calculated periodically by the GERS actuarial consultant. The actuarial valuation as of September 30, 2011 indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the cost of the pension trust fund on an actuarial basis, as required by law.

The Government's required contribution for the year ended September 30, 2013 was 17.5% of the member's annual salary. Since April 1, 1991, required member contributions are 8% of annual salary for regular employees, 9% for senators, 11% for judges, and 10% for safety (hazardous employees) and eligible employees under Act 5226. Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective July 1, 2009, GERS Board of Trustees approved an effective annual interest rate on refunded contributions of 2% per annum. The Government's estimated annual required contributions (based on a fiscal year 2006 actuarial valuation), actual contributions made, and percentage contributed to the plan for the years ended September 30, 2013, 2012, and 2011 were as follows (expressed in thousands):

	<b>Contractually Required Contributions</b>	<b>Contributions Made</b>	<b>Percentage Contributed</b>
2011	\$ 80,850	\$ 80,850	100%
2012	\$ 66,677	\$ 66,677	100%
2013	\$ 64,531	\$ 64,531	100%

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 15. Retirement Systems (continued)

##### Funding Policy (continued)

In August 1994, legislation providing an early retirement incentive was passed. The legislation was subsequently amended on October 13, 1994, December 30, 1994, and December 5, 1995. Among other matters, the legislation allows a member of GERS who has a combined aggregate number of years of credited service plus number of years of age, equal to at least 75 years as of the date of the legislation, to retire without reduction of annuity. Members, who have attained the age of 50 with at least 10 but less than 30 years of credited service, may add an additional 3 years to their age for this computation. Members with 30 years of service or who can retire without penalty under the V.I. Code shall have their average compensation increased by 4 percentage points.

For each employee electing to retire pursuant to Section 8(a) of the Early Retirement Act of 1994 (the Act), the Government contributes to GERS, on a quarterly basis, an amount equal to the employer and employee contributions that would have been made until the employee reached the age of 62 had the employee not elected to retire under this provision.

For employees electing to retire under Section 8(b) of the Act, the Government contributes to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4% higher during the three years used to compute the employee's average compensation figure, plus a sum of \$5,000. Based on this calculation, the amount due to GERS was \$26.9 million as of September 30, 2013, of which \$26.9 million had been remitted to GERS.

The actuaries of GERS have determined that the specific funding provided under the Act is inadequate to cover the costs of the program. GERS is seeking to recover any unfunded costs of the program under a newly enacted provision of the retirement law, which provides that the Government will compensate GERS for the costs of any special early retirement program.



## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **15. Retirement Systems (continued)**

##### **Funding Policy (continued)**

The University has two retirement plans in which all eligible employees are required to participate, the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and GERS. The TIAA-CREF is a defined-contribution pension plan covering participating, full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs, and vested benefits are equal to the annuities purchased under TIAA-CREF. Total contributions made by the University to TIAA-CREF and GERS participant accounts amounted to \$2.1 million and \$1.3 million, respectively.

##### **Postemployment Benefits**

In addition to the pension benefits described in Note 15, the Government provides other postemployment benefits (OPEB) of healthcare, prescription, dental and life insurance coverage. These benefits are provided in accordance with Title 3, Chapter 25, Subchapter VIII of the VI Code as part of a cost-sharing, multiple employer defined benefit OPEB plan, in which all component units of the PG participate and contribute. All employees who retire from government service after attaining age 55 with at least 30 years of service; except for policemen and firemen who can retire with at least 20 years of service, are eligible for these benefits.

Based on census data included in the October 1, 2011 actuarial valuation of OPEB, approximately 9,655 active employees, 6,837 service retirees, 1,845 spouses of service retirees covered for medical and dental benefits, 118 disability retirees, 52 spouses of disability retirees, and 175 deferred vested (i.e., non-retired employees who have already terminated employment with the PG, but who are eligible for medical and life insurance benefits when they subsequently reach the qualifying age) meet the eligibility requirements of OPEB.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **15. Retirement Systems (continued)**

##### **Postemployment Benefits (continued)**

Healthcare, prescription and dental insurance is provided through negotiated contracts with private insurance companies. Participants in the plan may elect coverage for their spouses and dependent children. Participants are required to contribute 35% of medical, prescription and dental premiums. Effective October 1, 2013, separate medical premiums for non-Medicare retirees and Medicare retirees are being used to determine contribution requirements, instead of a premium blended with active costs. Retirees of UVI that participate in the 403(b) retirement plan may obtain coverage on a fully contributory basis. Life insurance is offered to retirees on a fully contributory basis.

The contribution requirements of plan members and the PG are legislated within the Virgin Islands Code, and may be amended, by the Virgin Islands Legislature. The plan is a non-funded pay-as-you-go plan, and expenditures are paid as they become due. For the years ended September 30, 2013 and 2012, the Legislature budgeted, and paid, \$23.9 and 22.3 million for retiree health insurance payments.

The PG's postemployment benefit cost is calculated on the annual required contribution of the PG, an amount actuarially determined. The first actuarial valuation was prepared as of October 1, 2007, in accordance with provisions of GASB Statement 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*", and has been updated by the actuarial consultant on October 1, 2009, October 1, 2011, and October 1, 2012. On October 1, 2013, the plan covering post-65 retirees and dependents was changed to AARP Medicare Supplement Plan N and an Employer Group Waiver Plan. Due to the significant cost reductions, a new valuation was prepared for October 1, 2012, projecting the liabilities and normal cost to determine the PG's annual required contribution for the fiscal year ending September 30, 2013. The valuation results were based on census data provided by the Government as of October 1, 2011. Prior to the implementation of GASB Statement 45, the PG did not report an OPEB obligation.

The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year, and amortize any unfunded actuarial liabilities over a period not to exceed an open thirty (30) year period.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**15. Retirement Systems (continued)**

**Postemployment Benefits (continued)**

The following table shows the components of the PG's annual postemployment benefits cost for the fiscal year ended September 30, 2013, and the changes in the net estimated obligation for future payments of benefits:

**Annual OPEB Cost and Net Postemployment Benefit Obligation**

*In thousands*

Annual required contribution	\$ 71,385
Interest on underfunded OPEB obligation	9,190
Adjustment to underfunded OPEB obligation	(9,397)
Annual OPEB cost	71,178
Employer contributions	(31,283)
Change in the net OPEB obligation	\$ 39,895
Net OPEB obligation - beginning of year	\$ 245,079
Change in the net OPEB obligation	39,895
Net OPEB obligation - end of year	\$ 284,974

**Actuarial Accrued Liability and Funding Status**

*In thousands*

Actuarial Valuation Date	October 1, 2012
Actuarial Accrued Liability (AAL)	\$994,464
Unfunded AAL	\$994,464
Funded Ratio	0%

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **15. Retirement Systems (continued)**

##### **Postemployment Benefits (continued)**

The PG's obligation to provide health insurance to retirees is an unfunded plan. The actuarial valuation of the amount required to fund the plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Estimated annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the PG and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities, and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the first actuarial valuation dated October 1, 2007, liabilities at October 1, 2008 were rolled back to October 1, 2007. In subsequent valuation reports, actual benefit payments were used for the fiscal years ending September 30, 2009 through 2013.

Covered health care and dental care expenses were assumed to increase in future years based on the claims experience for fiscal years 2012 and 2013, and a trend assumption beginning at 8.5% for pre-Medicare retirees, 7.0% for post-Medicare retirees, and 7.5% for dental for fiscal year 2013 grading down to an ultimate rate of 4.5% in fiscal year 2022.

The entry age normal actuarial cost method with costs on a level percentage of payroll basis was used to determine the annual required cost of OPEB benefits to retirees. Amortization is over an open thirty (30) year period as a level percentage of payroll. Payroll growth is assumed to be 3% per year for purposes of amortization.

This method is consistent with the cost method used by GERS and typically produces the most level annual required contribution each subsequent year as a percentage of payroll. The normal cost was rolled back using the ultimate trend rate. A discount rate of 3.75% per annum was used, compounded annually. The valuation assumed that the annual unit cost per covered individual (i.e., retiree or spouse) for medical, prescription drugs and dental care for the fiscal year ending September 30, 2013 was \$7,395, \$1,257 and \$199 for retirees under age 65; and \$972, \$1,578 and \$199 for retirees over age 65. The normal cost reflects the average age of the covered population and is based on claims experience for fiscal year ending September 30, 2013.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### 15. Retirement Systems (continued)

##### Postemployment Benefits (continued)

Combined experience and a combined cost were used for the pre-65 and post-65 populations. A composite cost was developed for retirees and spouses by combining their claim experience. Dependent children claims were included in developing the composite retiree and spouse cost. Costs were trended forward to fiscal year 2013 and adjusted to reflect the anticipated lag in claim payment.

#### 16. Liquidity

##### Governmental Activities

At September 30, 2013, the Government reported an unrestricted net deficit in governmental activities amounting to \$1.8 billion. The net deficit resulted from: 1) the 2008 financial markets collapse and subsequent recession resulting in a reduction in income tax revenue and increase in unemployment, 2) the delay in the issuance of property taxes due to a class action lawsuit, 3) increases in costs of operations, and 4) the negative effect of certain Internal Revenue Service regulations resulting in a reduction of economic development companies operating in the Territory. Following is a summary of the Government's unrestricted net deficit for governmental activities for fiscal years 2007 through 2013:

##### Governmental Activities Unrestricted Net Deficit

*(In thousands, as restated)*

<b>Fiscal Year</b>	<b>Governmental Unrestricted Net Deficit</b>	<b>(Increase)</b>
2007	\$ (335,924)	\$ (29,457)
2008	(513,201)	(177,277)
2009	(1,110,871)	(597,670)
2010	(1,408,601)	(297,730)
2011	(1,630,549)	(221,948)
2012	(1,697,066)	(66,517)
2013	(1,837,805)	(140,739)

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**16. Liquidity (continued)**

**Governmental Activities (continued)**

The Government has initiated specific actions to improve its liquidity and future cash flows. The Government established the Office of Economic Opportunity to pursue grants through the American Recovery and Reinvestment Act of 2009, to generate jobs, to promote energy efficient appliances and automobiles, and to improve infrastructure. The Government has successfully attracted a rum producer (Captain Morgan) and retained an existing rum producer (Cruzan Rum) within the Territory. The Government has imposed budgetary restraints, including incentives for early retirement of government workers, salary reductions, personnel reductions and budgetary cut-backs for the entire government. The Government has also legislated increases in local taxes such as the gross receipts taxes and hotel taxes. The Government has met certain District Court requirements in connection with a taxpayer class-action lawsuit, allowing the issuance of property tax assessments through 2012.

**General Fund**

At September 30, 2013, the Government reported a fund deficit in the General Fund of \$9.9 million. This fund balance represents a decrease in the General Fund balance of \$30.3 million from the 2012 fiscal year, mainly due to the issuance of working capital loans to offset deficits resulting from expenditures exceeding revenues. Following is a summary of the General Fund balance for fiscal years 2013, 2012 and 2011:

**General Fund Unreserved Fund Balance (Deficit)**

*(In thousands)*

<b>Fiscal Year</b>	<b>Committed</b>	<b>Unassigned</b>	<b>Total</b>
2011	\$29,571	\$(103,408)	\$(73,837)
2012	29,099	(8,649)	20,450
2013	27,314	(37,260)	(9,946)

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**17. Fund and Net Position Deficits**

The following non-major funds have a fund or net position deficits as of September 30, 2013 (in thousands):

<u>Governmental Funds</u>		<u>Proprietary Funds</u>	
RURAL LIBRARY EXTENSION	\$ 572	BUREAU OF MOTOR VEHICLES	\$ 5,253
EMPLOYMENT SECURITY ADMINISTRATION	2442	GOVERNMENT INSURANCE HOUSING CONSTRUCTION REVOLVING	23,081
FEDERALLY AIDED EDUCATION PROGRAM	9,593	EMERGENCY HOUSING FUND	82
AIR & WATER POLLUTION CONTROL	7,157	VIRGIN ISLANDS LOTTERY	2,200
VI PLANNING BOARD PROJECTS	2,999	CONSUMER PROTECTION FUND	200
HIGHWAY SAFETY	4,600	VIRGIN ISLANDS HOUSING FINANCE AUTHORITY	3,000
VIRGIN ISLANDS ENERGY OFFICE	3,633	FREDERIKSTED SMALL BUSINESS FUND	47
VIRGIN ISLANDS NATIONAL GUARD FEDERAL AND STATE AGREEMENT	2,755	<b>Proprietary Fund Net Position Deficits</b>	<b>\$ 36,867</b>
FOOD STAMP WELFARE FEDERAL PROGRAMS/DEPARTMENT CONSERVATION	4,229		
FEDERAL AIDED COMMUNITY ACTION AGENCY	187		
COMMISSION ON AGING ELEMENTARY/SECONDARY EDUCATION	50		
	19		
JOB TRAINING PARTNERSHIP ACT OF 1983-1984	8,614		
CIVIL DEFENSE PROTECTION	849		
HEALTH INFORMATION COUNCIL ASSISTANCE	18		
DRUG EDUCATION TRAINING PROGRAM	123		
FEDERAL HEALTH PROGRAM NOT ON FEDERAL LETTER OF CREDIT SYSTEM	489		

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**17. Fund and Net Position Deficits (continued)**

<b>Governmental Funds</b>		<b>Governmental Funds</b>	
WATER & ELECTRIC SYSTEM PROJECTS	\$ 1,698	BOATING SAFETY PROGRAM	\$ 583
SEWER SYSTEM FUND	168	DEPT OF EDUCATION FEDERAL GRANTS EXCEPT ARRA	<u>1,587</u>
DISTRICT POTABLE WATER FUND	4,962	<b>Total Fund Deficit</b>	<b>\$ <u>143,488</u></b>
PATERNITY AND CHILD SUPPORT	11,872		
DISTRICT STREET LIGHT FUND	8,078		
VI LAW ENFORCEMENT	4,534		
FORENSIC SCIENCE	74		
VOCATIONAL REHABILITATION	1,848		
HURRICAN HUGO INSURANCE CLAIMS	3,908		
VI ARMY NATIONAL GUARD	2,266		
EMERGENCY DROUGHT RELIEF	173		
OUTDOOR RECREATION PROGRAM	40		
NARCOTICS STRIKE FORCE FORFEITURE	3		
SMALL BUSINESS DEVELOPMENT ADMINISTRATION MANAGERIAL AND TECHNICAL ASSISTANCE	8		
FEDERAL GRANTS FOR ALL AGENCIES EXCEPT DEPT OF EDUCATION	3,054		
JUVENILE DETENTION CENTER FUND NON-LAPSING	14		
VI EDUCATION INITIATIVE FUND NON LAPSING	9,264		
SECTION 12 BOND PROCEEDS	31,072		
ROAD FUND	6,330		
PFA/OFFICE OF ECONOMIC OPPORTUNITY	133		
MAJOR REPAIR AND IMPROVEMENT	58		



Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**18. Restatement of Component Units**

Beginning net position of three discretely-presented component units were restated to correct account balances reported in prior years as follows (expressed in thousands):

<b>Component Unit</b>	<b>Beginning Net Position</b>		
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
Virgin Islands Housing Authority	\$ 63,607	\$ 16,928	\$ 80,535
Magens Bay Authority	15,911	10	15,921
Virgin Islands Public Television Station	7,745	204	7,949
Other component units	740,884	–	740,884
Net Assets	<u>\$ 828,147</u>	<u>\$ 17,142</u>	<u>\$ 845,289</u>

***Virgin Islands Housing Authority (VIHA)***

During the audit of fiscal year 2012, VIHA restated the 2011 audited financial statements due to the fact that the Authority's previously issued financial statements did not included a liability for postemployment benefits other than pensions (OPEB) in accordance with GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. As a result, VIHA's net position as of September 30, 2011 was adjusted by \$16.9 million.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **19. Subsequent Events**

##### **Primary Government**

On October 16, 2013, PFA issued the Series 2013 B-2 Revenue Anticipation Note (“Series 2013B-2 Note”) amounting to \$20 million through FirstBank Puerto Rico. The Government has pledged gross receipts taxes for the timely payment of the Series 2013B-2 Note. The proceeds of the Series 2013B-2 Note were used to: (i) finance certain operating expenses and other financial obligations of the Government, and (ii) pay the costs of issuing the Series 2013B-2. The Series 2013B-2 Note has a maturity date of September 30, 2014, and has a 6.0% interest rate.

On October 17, 2013, PFA issued the Series 2013 B Revenue Refunding Bonds (“Series 2013B Bonds”) amounting to \$51.4 million. The Government has pledged matching funds for the timely payment of the Series 2013B Bonds. The Series 2013B Bonds bear interest at rates from 3.00% to 5.00% and mature from 2015 to 2024. The Series 2013B Bonds were issued to: (i) refund portions of the Series 2004A Bonds, (ii) fund certain debt service reserves in connection with the issuance of the Series 2013B Bonds, and (iii) to pay the costs of issuing the bonds.

On October 18, 2013, WICO entered into a refinancing loan agreement with Banco Popular de Puerto Rico amounting to \$28.5 million (“WICO loan”). Under the terms of the refinancing agreement WICO pledged: (i) operating revenues arising from the ship’s agent business, and (ii) real property and improvements referred to as the “WICO Dock” including bulkhead and wharf, warehouses, office buildings, maintenance buildings and other facilities. The purpose of the WICO loan is to: (i) repay the existing loan with the bank amounting to \$21.2 million, (ii) finance the construction and expansion of the WICO Dock and ship berthing facilities to accommodate larger cruise ships, and (iii) to fund costs associated with the issuance of the WICO loan. The WICO loan bears interest at 6.18%, and requires only interest payments during the first twelve months from the date of closing on the loan. Thereafter, the loan shall be repaid in fifty-nine (59) monthly installment payments of \$187 thousand, with a sixtieth (60), final payment of outstanding principal.

On November 8, 2013, the PG ratified an agreement with HOVENSA to sell the oil refinery, which discontinued operations on the island of St Croix in January 2012. The oil refinery will be utilized as a storage facility pending the sale.

## Government of the United States Virgin Islands

### Notes to Basic Financial Statements (continued)

#### **19. Subsequent Events (continued)**

##### **Primary Government (continued)**

On February 21, 2014, the U.S. Department of Interior's Office of Insular Affairs approved an advance payment of matching funds to the PG of \$60.8 million based on a rum excise tax rate of \$13.50 per proof gallon ("matching funds"). The Office of Insular Affairs had previously released an advance to the PG on September 30, 2013 at the rate of \$10.50 per proof gallon, due to the expiration of the \$13.50 rate on December 31, 2013. Legislation introduced in Congress in April 2014 provides for an extension of the \$13.50 per proof gallon rate.

##### **Component Units**

On July 25, 2013, WAPA Electric approved a five to seven year agreement with the Vitol Group, a global energy provider to supply propane for power generation in the Territory. The project, scheduled for completion in the fall of 2014, is designed to reduce fuel costs by an estimated 30%.

On November 12, 2013, WAPA Electric extended its lease agreement with APR Energy for a gas turbine, for an additional twelve months through November 2014 for \$7.8 million.

On November 21, 2013, WAPA Electric management and the various financial institutions that had extended lines of credit to the Authority maturing in December 2013, entered into a revised agreement whereby the maturity date was extended to June 25, 2016.

On December 13, 2013, WAPA Electric was awarded a \$13 million low-interest rate loan from the United States Department of Agriculture Rural Utilities Service Program. The purpose of the loan is to fund the replacement of all electric meters in the Territory with digital meters that automatically report electricity usage to the WAPA offices. The loan bears interest rates of 3% to 4% and has a fifteen (15) year term.

In March 2014, the WAPA Board authorized management to enter into a contract for the purchase of an LM 2500, 22-megawatt gas turbine for an amount not to exceed \$15,000,500. The project will include procurement, engineering, installation, and commissioning to fully refurbish the gas turbine which is to be installed at the Randolph Harley Power Plant on St. Thomas.

Government of the United States Virgin Islands

Notes to Basic Financial Statements (continued)

**19. Subsequent Events (continued)**

**Component Units (continued)**

On March 13, 2014, the VIPA purchased a parcel of land from the PFA for \$700 thousand, in connection with development of a cruise port area on the island of St. Thomas.

On April 2014, VIPA amended its marine thrift to institute an increase in ship dues and wharfage from \$.85 to \$2 and \$1 to \$3, respectively.

On May 30, 2014, the VIHA was transferred from federal receivership with the U.S. Department of Housing and Urban Development, to administration by a board of directors appointed by the PG, and an executive director. The receivership had been established in August 2003 to address housing inventory management, financial management and long-term sustainability.

**Pension Trust Fund**

On December 19, 2013, GERS received a payment of \$4.3 million from Seaborne Airlines towards the outstanding principal and interest on all loans held with GERS. Seaborne continues to pay costs associated with the loan restructuring.

On June 19, 2014, GERS Board of Trustees approved a settlement agreement with the PG establishing required contributions to GERS for employees who retired between October 1, 2010 and December 31, 2012 under an early retirement program. Under the terms of the agreement, delinquent property taxes remaining in debt service reserves of the Series 2011B Note upon final payment of the note, will be applied to the payment of benefits for the early retirees.

## Required Supplementary Information

Required Supplementary Information (other than MD&A)

Government of U.S. Virgin Islands

Schedules of Funding Progress

September 30, 2013

**Employees Retirement System of the Government of the U.S. Virgin Islands**

Actuarial valuation date	(a) Actuarial value of assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial accrued liability (a) + (b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
<u>Pension Plan</u>						
1999	\$ 1,255,210,585	\$ 518,081,040	\$ 1,773,291,625	70.78%	\$ 307,568,648	168.44%
2000	1,330,089,822	525,608,964	1,855,698,786	71.68%	304,887,045	172.39%
2001	1,342,894,336	731,727,064	2,074,621,400	64.73%	298,909,928	244.80%
2002	1,337,676,064	815,884,419	2,153,560,483	62.11%	367,803,013	221.83%
2003	1,346,906,862	921,669,858	2,268,576,720	59.37%	338,444,739	272.33%
2004	1,360,288,336	977,502,024	2,337,790,360	58.19%	372,996,234	262.07%
2005	1,366,982,183	1,088,574,553	2,455,556,736	55.67%	355,462,276	306.24%
2006	1,421,093,035	1,236,571,529	2,657,664,564	53.47%	394,595,844	313.38%
2007	1,509,244,380	1,241,138,878	2,750,383,258	54.87%	419,161,255	296.10%
2008	1,530,604,789	1,310,218,726	2,840,823,515	53.88%	433,549,406	302.21%
2009	1,534,899,736	1,397,261,661	2,932,161,397	52.35%	458,154,309	304.98%
2010	1,505,970,212	1,513,059,673	3,019,029,885	49.88%	440,026,457	343.86%
2011(*)	1,448,926,591	1,719,110,906	3,168,037,497	45.74%	403,473,988	426.08%
2012(**)	1,327,038,907	1,603,758,454	3,168,037,497	45.28%	381,012,309	420.92%
2013(***)	1,262,600,000	1,817,900,000	3,080,500,000	41.00%	370,100,000	486.00%

(\*) Estimated based on the financial information provided as of September 30, 2010, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2006, assuming that actual experience during the October 1, 2006 to September 30, 2010, matched that assumed by the actuarial assumptions.

(\*\*) Estimated based on the financial information provided as of September 30, 2012, for the actuarial value of assets projected from the October 1, 2011 actuarial valuation, assuming that actual experience during the October 1, 2011 to September 30, 2012 matched that assumed by the actuarial assumptions. Payroll was estimated based on reported contributions for the year ending September 30, 2012. The 2012 results also reflect the suspension of the cost of living adjustment effective January 1, 2013.

(\*\*\*) Based on the financial information as of September 30, 2013 and an estimated actuarial accrued liability assuming that actual experience during the October 1, 2012 to September 30, 2013 matched that assumed by the actuarial assumptions.

Actuarial valuation – October 1, 2013.

Actuarial accrued liability determined under the Entry Age Normal Method.

## Required Supplementary Information (other than MD&A)

### Government of U.S. Virgin Islands

#### Schedules of Funding Progress (continued)

##### **Actuarial Methods and Assumptions**

The comparability of trend information, shows as RSI, is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligations as a factor.

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	October 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed group
Remaining amortization period	20 years
Asset valuation method	Actuarial value, but not less than 80% nor greater than 120% of market
Actuarial assumptions:	
Investment rate of return	7.5% per year compounded annually
Projected salary increases	4.0% per year compounded annually, attributable to inflation
Cost-of-living adjustments	COLA to non-disabled pensioners was suspended. Disability benefits increased by 1% up to age 60.

Required Supplementary Information (other than MD&A)

Government of U.S. Virgin Islands

Schedules of Funding Progress (continued)

Postemployment Benefits Other Than Pensions

Schedule of Funding Progress

Actuarial valuation Date	(a) Actuarial value of assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial accrued liability (a) + (b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
10/1/2007	\$ -	\$ 976,455,000	\$ 976,455,000	-	N/A	N/A
10/1/2009	\$ -	\$1,069,562,000	\$1,069,562,000	-	\$418,467,000	255.59%
10/1/2011	\$ -	\$1,133,327,000	\$1,133,327,000	-	\$403,389,000	280.95%
10/1/2012	\$ -	\$ 999,464,000	\$ 999,464,000	-	\$415,491,000	240.55%

Additional Note Disclosure  
Annual OPEB Cost and Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2008	\$78,185,000	40.36%	\$ 46,629,000
9/30/2009	82,004,000	42.34%	93,195,000
9/30/2010	85,946,000	42.89%	143,002,000
9/30/2011	89,962,000	35.06%	201,423,000
9/30/2012	80,322,000	45.65%	245,079,000
9/30/2013	71,176,000	43.95%	284,974,000



Required Supplementary Information (other than MD&A)

Employees' Retirement System of the Government of U.S. Virgin Islands

Schedule of Employer Contributions

September 30, 2013

	<b>Annual required contributions</b>	<b>Contributions made</b>	<b>Percentage contributed</b>
Year ended September 30,			
2008	\$ 138,488,871	\$ 75,871,146	54.79%
2009	147,490,851	80,177,004	52.35%
2010	157,817,709	77,004,630	48.79%
2011	162,841,336	80,849,762	49.65%
2012	178,644,349	66,677,154	37.32%
2013	172,439,842	64,531,322	37.42%

# Report on Internal Control

**Report of Independent Auditors**  
**on Internal Control Over Financial Reporting and on Compliance**  
**and Other Matters Based on an Audit of Financial Statements**  
**Performed in Accordance with *Government Auditing Standards***

The Honorable Governor  
of the Government of the United States Virgin Islands:

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government) as of and for the year ended September 30, 2013, which collectively comprise the Government's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 30, 2014.

We expressed a qualified opinion on the financial statements of the governmental activities and aggregate discretely-presented component units opinion units based on the circumstances noted in our report. In addition, we expressed a disclaimer of opinion on the financial statements of the aggregate remaining fund information and business type activities opinion units based on the circumstances described in our report.

Our report include references to other auditors who audited the financial statements of the Tobacco Settlement Financing Corporation (TSFC), Virgin Islands Public Finance Authority (VIPFA), Virgin Islands Water and Power Authority (WAPA), Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (VIPTS), Virgin Islands Lottery (V.I. Lottery), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), Employees' Retirement System of the Government of the Virgin Islands (GERS), and the Virgin Islands Housing Finance Authority (VIHFA), as described in our report on the Government's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of GERS were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Government's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-001 through 2013-008 to be material weaknesses.

### **The Government's Response to Findings**

The Government's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Government's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ernst & Young LLP*

June 30, 2014

# Single Audit Report

**Report of Independent Auditors  
on Compliance for Each Major Federal Program and  
Report on Internal Control Over Compliance  
Required by OMB Circular A-133**

The Honorable Governor of the United States Virgin Islands  
Government of the United States Virgin Islands

**Report on Compliance for Each Major Federal Program**

We have audited the Government of the United States Virgin Islands (the Government)'s compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Government's major federal programs for the year ended September 30, 2013. The Government's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on each of the Government's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Government's compliance.

***Basis for Adverse Opinion on CFDA 16.738 and ARRA-16.803 JAG Program Cluster, and on CFDA 93.778 Medical Assistance Program***

As described in the accompanying schedule of findings and questioned costs, the Government did not comply with requirements regarding CFDA 16.738 and ARRA-16.803 JAG Program Cluster as described in finding numbers 2013-014 for Cash Management, 2013-015 for Reporting, and 2013-016 for Subrecipient Monitoring. Also, the Government did not comply with requirements regarding CFDA 93.778 Medical Assistance Program as described in finding numbers 2013-009 for Cash Management, 2013-018 for Special Tests and Provisions – Utilization Control and Program Integrity, 2013-019 for Special Tests and Provisions – Inpatient Hospital and Long-Term Care Facility Audits, 2013-020 for Special Tests and Provisions – ADP Risk and System Security Review, 2013-021 for Activities Allowed or Unallowed and Allowable Costs/Cost Principles, and 2013-022 for Special Tests and Provisions – Medicaid Fraud Control Unit. Compliance with such requirements is necessary, in our opinion, for the Government to comply with requirements applicable to those programs.

***Adverse Opinion on CFDA 16.738 and ARRA-16.803 JAG Program Cluster, and on CFDA 93.778 Medical Assistance Program***

In our opinion, because of the significant of the noncompliance described in the Basis of Adverse Opinion paragraph, the Government did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 16.738 and ARRA-16.803 JAG Program Cluster, and on CFDA 93.778 Medical Assistance Program for the year ended September 30, 2013.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the Government complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs that are identified in the summary of auditors results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2013.



### ***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs regarding the following:

<b>Finding No.</b>	<b>CFDA No.</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2013-009	20.205, ARRA-20.205	Highway Planning and Construction	Cash Management
2013-010	17.225	Unemployment Insurance	Cash Management
2013-011	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Special Tests and Provisions – Authorization of Above-50- Percent Vendors
2013-012	16.588	Violence Against Women Formula Grants	Reporting
2013-013	16.588	Violence Against Women Formula Grants	Subrecipient Monitoring
2013-017	93.558	Temporary Assistance for Needy Families	Special Tests and Provisions – Income Eligibility and Verification System (IEVS)

Our opinion on each major federal program is not modified with respect to these matters.

The Government's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Government's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the Government is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Government's internal control over compliance with requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described as follows to be material weaknesses:

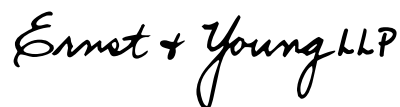
<b>Finding No.</b>	<b>CFDA No.</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2013-009	20.205, ARRA-20.205	Highway Planning and Construction	Cash Management
	93.778	Medical Assistance Program	
2013-010	17.225	Unemployment Insurance	Cash Management
2013-011	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Special Tests and Provisions – Authorization of Above-50-Percent Vendors
2013-012	16.588	Violence Against Women Formula Grants	Reporting
2013-013	16.588	Violence Against Women Formula Grants	Subrecipient Monitoring
2013-014	16.738, ARRA-16.803	JAG Program Cluster	Cash Management
2013-015	16.738, ARRA-16.803	JAG Program Cluster	Reporting
2013-016	16.738, ARRA-16.803	JAG Program Cluster	Subrecipient Monitoring
2013-017	93.558	Temporary Assistance for Needy Families	Special Tests and Provisions – Income Eligibility and Verification System (IEVS)

<b>Finding No.</b>	<b>CFDA No.</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2013-018	93.778	Medical Assistance Program	Special Tests and Provisions- Utilization Control and Program Integrity
2013-019	93.778	Medical Assistance Program	Special Test and Provisions- Inpatient Hospital and Long-Term Care Facility Audits
2013-020	93.778	Medical Assistance Program	Special Tests and Provisions- ADP Risk Analysis and System Security Review
2013-021	93.778	Medical Assistance Program	Activities Allowed or Unallowed and Allowable Costs/ Costs Principles- Recoveries, refunds and rebates
2013-022	93.778	Medical Assistance Program	Special Tests and Provisions- Medical Fraud Control Unit (MFCU)

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Government's responses to the internal control over compliance findings identified in our audit are described in the schedule of findings and questioned costs and corrective action plan. The Government's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



June 30, 2014

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2013

CFDA Number	Federal grantor/ pass through grantor / program or cluster title	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 72,389
10.170	Specialty Crop Block Grant Program - Farm Bill	168,367
<i>SNAP Cluster</i>		
10.551	Supplemental Nutrition Assistance Program (SNAP)	\$ 56,990,837
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	4,523,850
<i>SNAP Cluster Total</i>		61,514,687
<i>Child Nutrition Cluster</i>		
10.555	National School Lunch Program	9,607,821
10.556	Special Milk Program for Children	265,887
10.559	Summer Food Service Program for Children	205,464
<i>Child Nutrition Cluster Total</i>		10,079,172
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	7,107,682
10.558	Child and Adult Care Food Program	163,492
10.560	State Administrative Expenses for Child Nutrition	177,796
10.568	Emergency Food Assistance Program (Administrative Costs)	31,513
10.582	Fresh Fruit and Vegetable Program	31,435
10.664	Cooperative Forestry Assistance	109,341
10.675	Urban and Community Forestry Program	56,307
10.676	Forest Legacy Program	56,419
10.678	Forest Stewardship Program	61,494
10.680	Forest Health Protection	483
		79,630,577
<b><u>U.S Department of Commerce</u></b>		
11.407	Interjurisdictional Fisheries Act of 1986	634
11.419	Coastal Zone Management Administration Awards	1,058,172
11.426	Financial Assistance for National Centers for Coastal Ocean Science	1,489
11.433	Marine Fisheries Initiative	66,200
11.434	Cooperative Fisheries Statistics	8,855
11.435	Southeast Area Monitoring and Assessment Program	63,638
11.482	Coral Reef Conservation Program	27,422
		1,226,410
<b><u>U.S Department of Defense</u></b>		
12.401	National Guard Military Operations and Maintenance (O&M) Projects	4,479,777

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2013

CFDA Number	Federal grantor/ pass through grantor / program or cluster title	Federal Expenditures
	<b><u>U.S Department of Housing and Urban Development</u></b>	
14.235	Supporting Housing Program	30,450
	<b><u>U.S Department of the Interior</u></b>	
	<i><b>Fish and Wildlife Cluster</b></i>	
15.605	Sport Fish Restoration Program	478,235
15.611	Wildlife Restoration and Basic Hunter Education	92,454
	<i>Fish and Wildlife Cluster Total</i>	570,689
15.615	Cooperative Endangered Species Conservation Fund	81,005
15.622	Sportfishing and Boating Safety Act	821
15.631	Partners for Fish and Wildlife	1,480
15.634	State Wildlife Grants	247,153
15.875	Economic , Social, and Political Development of the Territories	7,460,885
15.904	Historic Preservation Fund Grants - In-Aid	25,327
15.916	Outdoor Recreation_Acquisition, Development and Planning	150,830
		8,538,190
	<b><u>U.S Department of Justice</u></b>	
16.523	Juvenile Accountability Block Grants	96,008
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	57,387
16.575	Crime Victim Assistance	313,636
16.576	Crime Victim Compensation	38,062
16.588	Violence Against Women Formula Grants	350,048
ARRA-16.588	ARRA - Violence Against Women Formula Grants	23,673
	<i>Violent Against Women Formula Grants Total</i>	373,721
16.606	State Criminal Alien Assistance Program	85,402
16.710	Public Safety Partnership and Community Policing Grants	516,784
16.727	Enforcing Underage Drinking Laws Program	144,351
	<i><b>JAG Program Cluster</b></i>	
16.738	Edward Byrne Memorial Justice Assistance Grant Program	289,114
ARRA-16.803	ARRA - Recovery Act- Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	827,261
	<i>JAG Program Cluster Total</i>	1,116,375
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	11,757
16.750	Support for Adam Walsh Act Implementation Grant Program	61,092
		2,814,575

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2013

CFDA Number	Federal grantor/ pass through grantor / program or cluster title	Federal Expenditures
<b>U.S Department of Labor</b>		
17.002	Labor Force Statistics	380,251
17.005	Compensation and Working Conditions	51,631
	<i>Employment Service Cluster</i>	
17.207	Employment Service/Wagner-Peyser Funded Activities	1,317,299
17.801	Disabled Veterans Outreach Program (DVOP)	15,430
17.804	Local Veterans Employment Representative Program	34,100
	<i>Employment Service Cluster Total</i>	<u>1,366,829</u>
17.225	Unemployment Insurance	49,572,488
17.235	Senior Community Service Employment Program	813,441
17.259	WIA Youth Activities	1,865,721
17.271	Work Opportunity Tax Credit Program (WOTC)	13,085
17.277	Workforce Investment Act (WIA) National Emergency Grants	1,527,725
17.503	Occupational Safety and Health State Program	217,082
		<u>55,808,253</u>
<b>U.S Department of Transportation</b>		
20.205	Highway Planning and Construction	20,789,169
ARRA-20.205	ARRA - Highway Planning and Construction	2,150,829
	<i>Highway Planning and Construction Total</i>	<u>22,939,998</u>
20.218	National Motor Carrier Safety	5,120
20.507	Federal Transit_Formula Grants	471,490
ARRA-20.507	ARRA - Federal Transit_Formula Grants	30,394
	<i>Federal Transit Formula Grants Total</i>	<u>501,884</u>
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	225,462
20.600	State and Community Highway Safety	418,179
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	35,197
		<u>24,125,840</u>
<b>National Foundation on the Arts and Humanities</b>		
45.025	Promotion of the Arts_Partnership Agreement	316,899
45.310	Grants to States	91,781
		<u>408,680</u>

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2013

CFDA Number	Federal grantor/ pass through grantor / program or cluster title	Federal Expenditures
<b><u>U.S Environmental Protection Agency</u></b>		
66.040	State Clean Diesel Grant Program	277
ARRA-66.418	ARRA - Construction Grants for Wastewater Treatment Works	188,558
66.454	Water Quality Management Planning	102,009
66.468	Capitalization Grants for Drinking Water State Revolving Fund	2,176,798
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	38,721
66.472	Beach Monitoring and Notification Program Implementation Grants	229,124
66.474	Water Protection Grants to the States	49,794
66.605	Performance Partnership Grants	1,601,294
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	88,478
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	61,305
66.817	State and Tribal Response Program Grants	82,633
		<u>4,618,991</u>
<b><u>U.S Department of Energy</u></b>		
81.041	State Energy Program	156,714
ARRA-81.041	ARRA - State Energy Program	2,052,389
	<i>State Energy Program Total</i>	<u>2,209,103</u>
81.042	Weatherization Assistance for Low-Income Persons	32,634
ARRA-81.042	ARRA-Weatherization Assistance for Low-Income Persons	72,239
	<i>Weatherization Assistance for Low Income Persons Total</i>	<u>104,873</u>
ARRA-81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	698,502
		<u>3,012,478</u>
<b><u>U.S Department of Education</u></b>		
84.027	Special Education_Grants to States	11,221,214
84.041	Impact Aid	294,632
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	1,716,611
84.169	Independent Living - State Grants	24,652
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	24,047
84.181	Special Education - Grants for Infants and Families	788,267
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	12,150
84.215	Fund for the Improvement of Education	264,759
84.256	Territories and Freely Associated States Education Grant Program	264,714

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2013

CFDA Number	Federal grantor/ pass through grantor / program or cluster title	Federal Expenditures
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	18,616
84.371	Striving Readers	196,036
84.372	Statewide Data System	1
ARRA-84.402	ARRA- Consolidated Grants to the Outlying Areas, Recovery Act	101,576
84.403	Consolidated Grants to the Outlying Areas	22,216,645
		<u>37,143,920</u>
<b>U.S. Department of Health and Human Services</b>		
93.042	Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals <i>Aging Cluster (93.044/045)</i>	39,314
93.044	Special Programs for the Aging-Title III, Part B, Grants for Supportive Services and Senior Centers	497,848
93.045	Special Programs for the Aging-Title III, Part C- Nutrition Services	1,605,672
	<i>Aging Cluster (93.044/045) Total</i>	<u>2,103,520</u>
93.048	Special Programs for the Aging_ Title IV and Title II Discretionary Projects	88,321
93.052	National Family Caregiver Support, Title III, Part E	213,686
93.069	Public Health Emergency Preparedness	42,580
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	814,985
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	179,428
93.110	Maternal and Child Health Federal Consolidated Programs	46,274
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	85,462
93.120	Mental Health Services for Cuban Entrants	51,896
93.127	Emergency Medical Services for Children	101,188
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	30,716
93.136	Injury Prevention and Control Research and State and Community Based Programs	2,930
93.150	Projects for Assistance in Transition from Homelessness (PATH)	50,000
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	61,158
93.217	Family Planning-Services	929,678
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	119,900
93.251	Universal Newborn Hearing Screening	131,523
93.259	Rural Access to Emergency Devices Grant	31,158
93.268	Immunization Grants	1,279,315
93.283	The Affordable Care Act: Centers for Disease Control and Prevention-Investigations and Technical Assistance	352,738
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	712,308



Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2013

CFDA Number	Federal grantor/ pass through grantor / program or cluster title	Federal Expenditures
93.507	PPHF 2012 National Public Health Improvement Initiative	2,850
93.519	Affordable Care Act (ACA) Consumer Assistance Program Grants	74,146
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)s Exchanges	679,192
93.556	Promoting Safe and Stable Families	592,940
93.558	Temporary Assistance for Needy Families	3,320,798
93.563	Child Support Enforcement	4,441,336
93.568	Low-Income Home Energy Assistance	151,073
93.569	Community Services Block Grant	2,376,612
93.575	Child Care and Development Block Grant	1,876,513
93.597	Grants to States for Access and Visitation Programs	14,768
93.600	Head Start	8,849,937
93.617	Voting Access for Individual with Disabilities - Grants to States	121
93.645	Stephanie Tubbs Jones Child Welfare Services Program	325,361
93.667	Social Services Block Grant	172,523
93.671	Family Violence Prevention and Services/Bettered Women's Shelters_Grants to States and Indian Tribes	41,825
ARRA-93.708	ARRA-Head Start	453,212
ARRA-93.719	ARRA State Grants to Promote Health Information Technology	24,654
ARRA-93.729	ARRA Health Information Technology and Public Health	3,159
93.778	Medical Assistance Program (Medicaid; Title XIX)	15,355,529
93.794	Reimbursement of State Costs for Provision for Part D Drugs	154,563
93.887	Health Care and Other Facilities	358,734
93.889	National Bioterrorism Hospital Preparedness Program	457,924
93.917	HIV Care Formula Grants	808,886
93.940	HIV Prevention Activities-Health Department Based	494,335
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	145,917
93.958	Block Grants for Community Mental Health Services	40,816
93.959	Block Grants for Prevention and Treatment of Substance Abuse	517,006
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	128,060
93.991	Preventive Health and Health Services Block Grant	125,234
93.994	Maternal and Child Health Services Block Grant to the States	1,380,881
		<u>50,836,983</u>
	<b><u>Corporation for National and Community Service</u></b>	
94.002	Retired and Senior Volunteer Program	24,677
94.011	Foster Grandparent Program	226,719
		<u>251,396</u>

Government of the United States Virgin Islands  
Schedule of Expenditures of Federal Awards (continued)  
Year Ended September 30, 2013

CFDA Number	Federal grantor/ pass through grantor / program or cluster title	Federal Expenditures
	<b><u>Executive Office of the President</u></b>	
95.001	High Intensity Drug Trafficking Program	77,605
	<b><u>Department of Homeland Security</u></b>	
97.012	Boating Safety Financial Assistance	622,910
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	3,967,504
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	1,659,177
ARRA-97.039	ARRA-Hazard Mitigation Grant	196,360
97.042	Emergency Management Performance Grants	585,634
97.045	Cooperating Technical Partners	71,672
97.067	Homeland Security Grant Program	962,864
97.078	Buffer Zone Protection Plan (BZPP)	182,066
97.082	Earthquake Consortium	76,095
97.089	Driver's License Security Grant Program	1,179,854
		9,504,136
	<b>Total expenditures of federal awards</b>	<b>\$ 282,508,261</b>

*See accompanying notes.*

Government of the United States Virgin Islands  
Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2013

**1. Basis of Presentation**

For purposes of complying with the Single Audit Act Amendments of 1996, the Government of the United States Virgin Islands (the Government or GVI) is defined in a manner consistent with the entity defined in the basic financial statements as of and for the year ended September 30, 2013, except that the discretely-presented component units (as defined in the notes to the aforementioned basic financial statements) are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the federal financial assistance programs administered by the Government for the year ended September 30, 2013, excluding the discretely-presented component units.

**2. Basis of Accounting**

The accompanying Schedule was prepared using the modified accrual basis of accounting, except for nonmonetary programs, which are presented based on the fair value of the food stamps (CFDA No. 10.551 in the amount of \$56,990,836) and the food cost (CFDA No. 10.557 in the amount of \$5,038,762) distributed during the year. The Government's accounting system provides the primary information from which the schedule is prepared.

**3. Matching Costs**

Matching costs, such as the nonfederal share of certain program costs, are not included in the accompanying Schedule, except Unemployment Insurance (CFDA No. 17.225), as indicated in Note 5.

**4. Relationship to Federal Financial Reports**

The regulations and guidelines governing the preparation of Federal Financial Reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the Federal Financial Reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared on the basis of accounting explained in Notes 1 and 2.

Office of Management and Budget (OMB) Circular A-133 requires that Federal Financial Reports and claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared. The Government's departments prepare the Federal Financial Reports and claims for advances and reimbursements primarily based on information from the internal accounting records of the respective Government's program departments.

Government of the United States Virgin Islands

Notes to Schedule of Expenditures of Federal Awards (continued)

**5. Unemployment Insurance Program (UI)**

The U.S. Department of Labor in consultation with the Office of Management and Budget officials has determined that for the purpose of audits and reporting under OMB Circular A-133, state Unemployment Insurance (UI) funds as well as federal funds should be considered federal awards for determining Type A programs. The State receives federal funds for administrative purposes. State unemployment taxes must be deposited to a state account in the Federal Unemployment Trust Fund, used only to pay benefits under the federally approved state law. State UI funds as well as federal funds are included on the Schedule. The following table provides a breakdown of the state and federal portions of the total expended under CFDA No. 17.225:

	<b>Expenditures</b>
Federal fund expenditures (Administration)	\$ 2,770,037
State fund expenditures (Trust fund)	46,802,451
Total expenditures	\$49,572,488

**6. Subrecipients**

Of the federal expenditures presented in the schedule, the Government provided federal awards to subrecipients related to programs as follows:

<b>Federal CFDA Number</b>	<b>Program Title</b>	<b>Amount Provided to Subrecipients</b>
16.588 and ARRA-16588	Violence Against Women Formula Grants	\$ 158,181
16.738 and ARRA-16.803	JAG Program Cluster	43,550
ARRA-81.128	Energy Efficiency and Conservation Block Grant Program	183,719
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	3,967,504
	Total federal awards provided to subrecipients	\$4,352,954

Government of the United States Virgin Islands

Schedule of Findings and Questioned Costs

Year Ended September 30, 2013

Part I - Summary of Auditor's Results

**Financial Statement Section**

Type of auditor's report issued on the basic financial statements:

<b>Opinion Unit</b>	<b>Type of Report</b>
Governmental Activities	Qualified
Business-type Activities	Disclaimer
General Fund	Unmodified
Debt Service Fund	Unmodified
Capital Projects Fund	Unmodified
West Indian Company Fund-enterprise Fund	Unmodified
Unemployment Insurance-enterprise Fund	Unmodified
Aggregate Remaining Fund Information	Disclaimer
Aggregate Discretely-presented Component Units	Qualified

**Internal Control over Financial Reporting**

Material weaknesses identified?..... **Yes**

Significant deficiencies identified? ..... **None reported**

Noncompliance material to financial statements noted?..... **No**

**Federal Awards Section**

Internal control over major programs:

Material weaknesses identified?..... **Yes**

Significant deficiencies identified?..... **None reported**

Government of the United States Virgin Islands  
 Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part I - Summary of Auditor's Results (continued)

Identification of major programs and type of auditor's report issued on compliance for major each program:

CFDA Number	Major Program	Type of Report Issued on Compliance
10.551 and 10.561	SNAP Cluster	Unmodified
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Unmodified
16.588 and ARRA-16.588	Violence Against Women Formula Grants	Unmodified
16.738 and ARRA-16.803	JAG Program Cluster	Adverse
17.225	Unemployment Insurance	Unmodified
20.205 and ARRA-20.205	Highway Planning and Construction	Unmodified
81.041 and ARRA-81.041	State Energy Program	Unmodified
ARRA-81.128	Energy Efficiency and Conservation Block Program	Unmodified
93.558	Temporary Assistance for Needy Families	Unmodified
93.563	Child Support Enforcement	Unmodified
93.600	Head Start	Unmodified
ARRA-93.708	ARRA-Head Start	Unmodified
93.778	Medical Assistance Program	Adverse
97.017	Pre-Disaster Mitigation Competitive Grants	Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133..... **Yes**

Dollar threshold used to distinguish between Type A and Type B programs:....**\$3,000,000**

Auditee qualified as low-risk auditee:..... **No**

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions and laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.**

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number 2013-001**

***Primary Agencies/Departments Affected***

Department of Finance (DOF), Internal Revenue Bureau (IRB), Lieutenant Governors Office (LGO)

***Topic***

The Government's lack of control over the income, property and gross receipts tax revenues, and accounts receivable processes led to significant audit adjustments being recorded in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

***Category***

Internal Control

***Criteria***

A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

***Condition Found***

Management's calculation of its tax revenues and accounts receivable processes were not properly performed, resulting in significant audit adjustments. The following items resulted in audit adjustments which could have been prevented if Management has implemented sound internal controls over its tax revenue and accounts receivable recognition processes: (a) Management calculation for property tax receivables was not properly calculated and thus significant audit adjustments were proposed in order to correctly present these accounts, and (b) inaccuracy of the accounts receivable aging due to subsequent collections being applied to the year-end balance.

***Questioned Costs***

Not applicable.



Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number 2013-001 (continued)**

***Cause***

The Government's tax revenue and accounts receivable process has grown in complexity. Additionally, supervisory review of the tax revenue and accounts receivable process was not effective in all instances.

***Effect***

The lack of supervisory review led to significant adjustments in the Government's financial statements.

***Recommendation***

The governmental finance department should be more closely involved in the monitoring and review of the tax revenue and accounts receivable processes. Management should consider performing these controls on a quarterly basis in order to detect and correct errors on a timely basis, while enhancing the Government's knowledge over its financial condition. In addition, the Department of Finance should be more involved in the preparation of the accounts receivable aging in order to validate the accuracy of the information provided.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number 2013-002**

***Primary Agencies/Departments Affected***

Department of Finance (DOF), Property and Procurement (P&P), Department of Public Works (DPW), Public Finance Authority (PFA), Department of Education (DOE)

***Topic***

The Government's lack of control over its capital assets process led to significant adjustments in the financial statements.

***Category***

Internal Control

***Criteria***

A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

***Condition Found***

During our review of capital asset accounts, we noted projects capitalized in the incorrect asset class. We also noted transfers of assets from construction in progress included as an addition instead of as a transfer from construction in progress, creating a duplicate addition. In addition, we noted assets capitalized in the incorrect period creating a cubolt issue.

***Questioned Costs***

Not applicable.

***Cause***

There is a lack of timely coordination and communication between the Department of Finance, the Department of Property and Procurement, V.I. Public Finance Authority, and the Department of Public Works.

***Effect***

The lack of supervisory review, coordination and communication between the mentioned departments led to significant audit adjustments in the Government's financial statements.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number 2013-002 (continued)**

***Recommendation***

The Government should be more closely involved in the monitoring and review of the financial statement close process of its capital assets. On a quarterly basis, at least, Management should consider reviewing assets capitalized in order to ascertain proper project capitalization. This will enable the detection and correction of errors on a timely basis.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number 2013-003**

***Primary Agency/Department Affected***

Department of Finance (DOF)

***Topic***

The Government's lack of control over the accounts payable reconciliations process and estimation of accrued liabilities led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

***Category***

Internal Control

***Criteria***

A fundamental element of a sound system of internal controls is an effective accounts payable reconciliations process and proper estimation of accrued liabilities. Such processes are essential in enabling entities to prevent and detect errors on a timely basis. This effective process helps ensure that all accounts payable and accrued liabilities are properly recorded, appropriately supported, and subjected to supervisory review.

***Condition Found***

Lack of controls over the accounts payable ERP module and accounts payable reconciliations has made it difficult for the Government to establish its accounts payable subledger. Management establishes its accounts payable subledger through a manually intensive process, in addition to the lack of processes to accurately estimate accrued liabilities as part of the financial statement close process. This resulted in audit significant adjustments in the Government's financial statements.

***Questioned Costs***

Not applicable.

***Cause***

The Government's financial statements have grown in complexity. Additionally, supervisory review of the accounts payable reconciliation process and estimation of accrued liabilities was not effective in all instances.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number 2013-003 (continued)**

***Effect***

The lack of supervisory review led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements.

***Recommendation***

The Government's management should be more closely involved in the monitoring and review of the financial statement close process. Management should consider performing this process on a quarterly basis in order to detect and correct errors on a timely basis, while enhancing the Government's knowledge over its financial condition. In addition, Management should consider establishing procedures to reduce manual efforts by utilizing its ERP Accounts Payable module more effectively. Additionally, Management should develop and establish a policy with accurate techniques to estimate accrued liabilities and not rely solely on subsequent events.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number 2013-004**

***Primary Agencies/Departments Affected***

Department of Finance (DOF)

***Topic***

The Government's lack of control over its retroactive pay liability has affected the auditor's ability to opine on certain affected opinion units. This has resulted in a modification of the audit opinion for the last four years. For the last four years, we encountered calculation errors that were significant in the retroactive pay liability calculation. The calculation errors have not been remediated as of the date of this report.

***Category***

Internal Control

***Criteria***

A fundamental element of a sound system of internal controls is an effective liability calculation process. Such process is essential in enabling organization to prevent and detect errors on a timely basis. This effective process helps ensure that all liability transactions are properly recorded, appropriately supported, and subjected to supervisory review.

***Condition Found***

The Government was not able to substantiate its calculation of the retroactive pay liability, which resulted in a qualification of the opinion of governmental activities in the Government's basic financial statements.

***Questioned Costs***

Not applicable.

***Cause***

Supervisory review of this liability calculation process was not effective. As a result, supporting documentation for calculation was not sufficiently adequate to support Management's assertions.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number 2013-004 (continued)**

***Effect***

The Government was not able to support its calculation for this liability, which resulted in a qualification of the audit opinion of governmental activities in the Government's basic financial statements.

***Recommendation***

The Government's management should establish controls over the review of this calculation process and effective procedures to document their support of this liability.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number 2013-005**

***Primary Agencies/Departments Affected***

Department of Finance (DOF)

***Topic***

Performance and review of the bank reconciliation process has not been timely performed and reconciling items have not been properly addressed or accounted for.

***Category***

Internal Control

***Criteria***

Performance and review of bank reconciliations should be performed within a reasonable period after month-end. Additionally, appropriate attention to detail should be practiced so that errors are appropriately identified and corrected on a timely basis.

***Condition Found***

During our audit, we noted that bank reconciliations were not being performed on a timely basis. Most bank reconciliations were completed, reviewed and approved after 365 days. As a result, reconciling items with inaccuracies that should have been identified during the review process were unheeded resulting in material misstatements.

***Questioned Costs***

Not applicable.

***Cause***

The Government has numerous bank accounts and its process for performing bank reconciliations is, for the most part, performed manually.



Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number 2013-005 (continued)**

***Effect***

The lack of timely performance and review of bank reconciliations led to adjustments not identified on a timely basis. Due to the nature of cash, lack of proper internal controls over the bank reconciliation process and cash in general can lead to an inaccurate presentation of the financial position of the Government, which can be detrimental to their operation. It can also pose a fraud risk as unapproved transactions may not be identified on a timely basis. In addition, this has prevented the Government from performing monthly closing procedures, which is necessary for timely financing reporting.

***Recommendation***

The Government should automate its bank reconciliation process and consolidate unnecessary bank accounts. This will allow for the Government's personnel to be more efficient and effective in detecting errors and provide the Government more timely and accurate financial information. In addition, should perform detail review of reconciling items in order to conclude on the accuracy and the proper inclusion or exclusion.

***Management's Response and Planned Corrective Actions***

While the Government concurs with the auditor's findings and recommendations as of September 30, 2013, significant progress regarding bank reconciliations was made subsequently. At September 30, 2013, 31 out of 32 bank accounts had been reconciled and substantial work completed in relation to the remaining bank account.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number 2013-006**

***Primary Agencies/Departments Affected***

Department of Finance (DOF), Department of Health (DOH)

***Topic***

The Government's lack of control over its liability estimation process for medical malpractice claims led to an error in the financial statements, which could not be quantified by management.

***Category***

Internal Control

***Criteria***

A fundamental element of a sound system of internal controls is an effective liability estimation process. Such process is essential in enabling entities to prevent and detect errors on a timely basis. This effective process helps ensure that all liability estimation transactions are properly recorded, appropriately supported, and subjected to supervisory review.

***Condition Found***

The Government did not establish a liability for medical malpractice claims.

***Questioned Costs***

Not applicable.

***Cause***

The Government's financial statements have grown in complexity. An evaluation of the malpractice liability was not performed for fiscal year 2013.

***Effect***

The Government was not able to quantify this liability, which resulted in a disclaimer in the audit opinion of the business-type activities and aggregate remaining fund information.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number 2013-006 (continued)**

***Recommendation***

The Government's management should establish controls over the review its claims data process which will allow them to provide the data necessary to their actuary for the estimation of this liability.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number 2013-007**

***Primary Agency/Department Affected***  
Department of Finance (DOF)

***Topic***

The Government's lack of control over transactions with its component units led to significant adjustments in the financial statements. In addition, due to consecutive restatements and qualifications with components units audited financial statements that led to qualifications and restatements on the Government's financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

***Category***

Internal Control

***Criteria***

A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review. In addition, a sound system of internal controls improves their oversight on component units' financial statements and the potential effect on the Government's financial statements.

***Condition Found***

Lack of review of classification and reporting of transactions with component units led to errors, resulting in significant audit adjustments.

***Questioned Costs***

Not applicable.

***Cause***

The Government does not have an effective process to review the classification and reporting of transactions between component units and the Government; in addition to process to oversight component units operation and financial statements preparation process.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number 2013-007 (continued)**

***Effect***

This control deficiency led to significant adjustments, qualifications and restatement in the Government's financial statements. This resulted in a material misstatement of the financial statements, some of which related to prior periods.

***Recommendation***

The Government's management should be more closely involved in the monitoring and review of the transactions with its component units, in order to detect and correct errors on a timely basis, while enhancing the Government's understanding over its financial condition. Additionally, the Government should implement procedures to improve their oversight over component units audit procedures and financial statement close process.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number: 2013-008**

***Topic***

Schedule of Expenditures of Federal Awards (SEFA)

***Category***

Internal Control

***Criteria***

The Government of the US Virgin Islands does not have internal controls in place to adequately prepare and review the Schedule of Expenditures of Federal Awards (SEFA). Due to the nature and magnitude of this control deficiency, we consider it to be a material weakness.

***Condition Found***

During the performance of our audit procedures, we received various versions of the Schedule of Expenditures of Federal Awards (SEFA). We noted the original versions did not include non-cash items or other program adjustments. Such adjustments included:

- Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) Food Commodities of \$ 56,990,836.
- Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (CFDA No. 10.557) Food Commodities of \$ 5,048,805.
- Unemployment Insurance (CFDA No. 17.225) Benefits of \$ 46,802,451.
- Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (CFDA No. 10.557) adjustment of \$ 961,004 reclassifying program rebates previously presented as revenue against program Food Commodities expenditures.

Additionally, there are no procedures established to ascertain completeness and accuracy of the SEFA provided to the auditors. Furthermore, the government did not appropriately identify ARRA funds within the schedule or verify documentation of CFDA numbers and program/cluster titles according to the Catalog of Federal Domestic Assistance.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part II - Financial Statement Findings Section

**Finding Number: 2013-008 (continued)**

***Questioned Costs***

Not applicable.

***Cause***

There are no internal control procedures established to review and ensure that the SEFA is accurately and timely prepared.

***Effect***

The lack of adequate internal controls to ensure a complete compilation of the SEFA and accuracy of the information presented may cause material omissions of certain grant expenditures, as well as missed major programs and delays in the audit process.

***Recommendation***

The Government of the US Virgin Islands should establish policies and procedures to ascertain a complete and accurate compilation of the SEFA is timely performed, including all Federal program expenditures and adjustments.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**This section identifies the audit findings required to be reported by OMB Circular A-133, Section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.**



Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-009**

***Programs***

U.S. Department of Transportation - Highway Planning and Construction - CFDA Nos. 20.205, ARRA-20.205

U.S. Department of Health and Human Services – Medical Assistance Program - CFDA No. 93.778

***Category***

Internal Control / Compliance

***Compliance Requirement***

Cash Management

***Criteria***

In accordance with 31 CFR part 205 and the Cash Management Improvement Act (CMIA) Treasury-State Agreement in effect for fiscal year 2013, between the Territory of the Virgin Islands (the Territory) and the U.S. Secretary of the Treasury, the Territory is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-009 (continued)**

***Condition- Highway Planning and Construction – CFDA Nos. 20.205 and ARRA- 20.205  
Funding Techniques per Cash Management Improvement Act Agreement:***

CFDA: 20.205 and ARRA 20.205

Component: Salaries

Technique: Average Clearance

Clearance Pattern: 0 Days

Component: Vendor pay and all other costs

Technique: Average Clearance

Clearance Pattern:4 Days

During our assessment to determine whether the Government complied with the terms and conditions of the CMIA, we selected a sample of sixty (60) cash drawdowns (out of a population of 601) totaling \$879,114 (from a population of \$15,377,832). We noted that fifty-nine (59) out of the 60 drawdowns selected for testing totaling \$879,114 did not comply with the average clearance pattern established in the CMIA.

One of the fifty-nine (59) items were submitted prior to the actual deposit date. Additionally, we encountered seven (7) instances where the program was unable to provide support to confirm that the funds were deposited as required.

Government of the United States Virgin Islands  
 Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-009 (continued)**

**Condition- Highway Planning and Construction – CFDA Nos. 20.205 and ARRA- 20.205  
 Funding Techniques per Cash Management Improvement Act Agreement (continued):**

Item No.	Component	Amount	Check Release Date	Actual Deposit Date	Check Release-Actual Deposit Date	ARRA	Non-ARRA
1	Vendor Payments and all other payments	\$19,930.89	1/22/2013	2/5/2013	14		x
2	Vendor Payments and all other payments	18.73	4/13/2013	12/20/2013	251		x
3	Vendor Payments and all other payments	1,289.95	3/19/2013	4/15/2013	27		x
4	Vendor Payments and all other payments	14.38	4/13/2013	12/20/2013	251		x
5	Vendor Payments and all other payments	20.00	4/13/2013	12/20/2013	251		x
6	Vendor Payments and all other payments	66.05	8/14/2013	12/20/2013	128		x
7	Vendor Payments and all other payments	20.77	8/14/2013	12/20/2013	128		x
8	Vendor Payments and all other payments	322.77	8/14/2013	12/20/2013	128		x
9	Vendor Payments and all other payments	119.01	8/14/2013	12/20/2013	128		x
10	Vendor Payments and all other payments	3,836.80	10/2/2013	3/24/2014	173		x
11	Vendor Payments and all other payments	3,500.00	9/17/2013	9/24/2013	7		x
12	Vendor Payments and all other payments	4,848.00	9/4/2013	3/24/2014	201		x
13	Vendor Payments and all other payments	3,653.80	8/17/2013	3/24/2014	219		x
14	Vendor Payments and all other payments	3,845.60	8/7/2013	3/24/2014	229		x
15	Vendor Payments and all other payments	2,972.16	7/26/2013	3/24/2014	241		x
16	Vendor Payments and all other payments	3,653.80	7/24/2013	3/24/2014	243		x
17	Vendor Payments and all other payments	3,836.80	7/24/2013	3/24/2014	243		x
18	Vendor Payments and all other payments	6,023.20	7/12/2013	3/24/2014	255		x
18	Vendor Payments and all other payments	3,109.62	1/22/2013	2/15/2013	24		x
20	Vendor Payments and all other payments	3,653.86	1/11/2013	2/15/2013	35		x
21	Vendor Payments and all other payments	4,442.30	12/28/2012	2/15/2013	49		x

Government of the United States Virgin Islands  
 Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-009 (continued)**

**Condition- Highway Planning and Construction – CFDA Nos. 20.205 and ARRA- 20.205  
 Funding Techniques per Cash Management Improvement Act Agreement (continued):**

Item No.	Component	Amount	Check Release Date	Actual Deposit Date	Check Release-Actual Deposit Date	ARRA	Non-ARRA
22	Vendor Payments and all other payments	724.98	10/13/2012	-	-		x
23	Vendor Payments and all other payments	28,716.61	7/24/2013	8/21/2013	28		x
24	Vendor Payments and all other payments	27,659.71	5/13/2013	7/12/2013	60		x
25	Vendor Payments and all other payments	267.00	3/21/2013	5/9/2013	49		x
26	Vendor Payments and all other payments	24,093.03	10/10/2013	11/19/2013	40		x
27	Vendor Payments and all other payments	10,556.26	12/18/2012	12/24/2012	6	x	
28	Vendor Payments and all other payments	222,001.70	11/21/2012	11/14/2012	-7	x	
29	Vendor Payments and all other payments	283,162.02	12/18/2012	8/20/2013	245	x	
30	Vendor Payments and all other payments	82.14	6/5/2013	6/20/2013	15		x
31	Vendor Payments and all other payments	11.76	4/13/2013	5/9/2013	26		x
32	Vendor Payments and all other payments	12.10	4/13/2013	5/9/2013	26		x
33	Vendor Payments and all other payments	6.87	3/5/2013	4/20/2013	46		x
34	Vendor Payments and all other payments	9.21	3/5/2013	4/20/2013	46		x
35	Vendor Payments and all other payments	9.55	3/5/2013	4/20/2013	46		x
36	Vendor Payments and all other payments	8.73	3/5/2013	4/20/2013	46		x
37	Vendor Payments and all other payments	3,300.00	9/23/2013	10/11/2013	18		x
38	Vendor Payments and all other payments	82,166.86	12/29/2012	1/10/2013	12		x
39	Vendor Payments and all other payments	28.65	3/5/2013	4/20/2013	46		x
40	Vendor Payments and all other payments	498.90	9/4/2013	-	-		x
41	Vendor Payments and all other payments	228.00	8/12/2013	-	-		x
42	Vendor Payments and all other payments	10.55	6/5/2013	7/29/2013	54		x

Government of the United States Virgin Islands  
 Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-009 (continued)**

**Condition- Highway Planning and Construction – CFDA Nos. 20.205 and ARRA- 20.205  
 Funding Techniques per Cash Management Improvement Act Agreement (continued):**

Item No.	Component	Amount	Check Release Date	Actual Deposit Date	Check Release-Actual Deposit Date	ARRA	Non-ARRA
43	Vendor Payments and all other payments	84.03	6/5/2013	6/20/2013	15		x
44	Vendor Payments and all other payments	10,602.00	3/18/2013	-	-		x
45	Vendor Payments and all other payments	5,007.70	11/30/2012	1/21/2013	52		x
46	Vendor Payments and all other payments	4,038.46	11/20/2012	2/15/2013	87		x
47	Vendor Payments and all other payments	3,836.80	11/20/2012	2/15/2013	87		x
48	Vendor Payments and all other payments	4,444.26	11/20/2012	2/15/2013	87		x
49	Vendor Payments and all other payments	84,919.09	10/01/2013	10/11/2013	10		x
50	Vendor Payments and all other payments	175.20	8/29/2013	-	-		x
51	Vendor Payments and all other payments	1,000.00	3/25/2013	-	-		x
52	Vendor Payments and all other payments	500.00	12/7/2012	-	-		x
53	Vendor Payments and all other payments	4,807.20	2/14/2013	2/15/2013	1		x
54	Vendor Payments and all other payments	3,576.80	12/12/2012	2/15/2013	65		x
55	Vendor Payments and all other payments	77.81	1/9/2013	1/17/2013	8		x
56	Vendor Payments and all other payments	78.02	1/9/2013	1/17/2013	8		x
57	Vendor Payments and all other payments	84.09	1/9/2013	1/17/2013	8		x
58	Vendor Payments and all other payments	85.32	11/23/2012	12/1/2012	8		x
59	Vendor Payments and all other payments	71.20	1/28/2013	2/11/2013	14		x

Government of the United States Virgin Islands  
 Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-009 (continued)**

**Condition- Medical Assistance Program - CFDA No. 93.778**  
*Funding Techniques per Cash Management Improvement Act Agreement*

CFDA: 93.778

Component: Salaries

Technique: Average Clearance

Clearance Pattern: 0 Days

Component: Vendor pay and all other costs

Technique: Average Clearance

Clearance Pattern: 4 Days

During our assessment to determine whether the Government complied with the terms and conditions of the CMIA Treasury-State Agreement, we selected a sample of twelve (12) cash drawdowns (out of a population of 60) totaling \$2,272,899 (from a population of \$15,326,347). We noted that six (6) drawdowns selected for testing totaling \$2,272,899 did not comply with the CMIA as follows:

Item #	Component	Amount	Payment Release Date	Actual Deposit Date	Check Release Date- Actual Deposit Date
1	Vendor Pay and all other costs	\$324,717.37	8/28/2013	9/26/2013	29
2	Salaries	29,951.02	8/22/2013	8/27/2013	5
3	Salaries	28,079.73	6/27/2013	7/8/2013	11
4	Vendor Pay and all other costs	685,175.48	5/21/2013	5/28/2013	7
5	Vendor Pay and all other costs	161,726.15	4/17/2013	5/16/2013	29
6	Vendor Pay and all other costs	112,240.38	3/13/2013	3/21/2013	8

**Questioned Costs**

Not applicable.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-009 (continued)**

***Cause***

Internal controls related to cash management to minimize the time between when funds are released and the transfers are made are not operating effectively in accordance with Cash Management Improvement Act (CMIA) requirements.

***Effect***

Delays in drawing funds may result in inability to satisfy current financial obligations.

***Recommendation***

The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the CMIA Treasury-State Agreement.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-010**

***Program***

U.S. Department of Labor – Unemployment Insurance – CFDA No. 17.225

***Category***

Internal Control / Compliance

***Compliance Requirement***

Cash Management

***Criteria***

According to the 31 CFR 205 “Subpart B- Rules Applicable to Federal Assistance Programs not included in a Treasury-State Agreement”: A state must minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirement of the State in carrying out a federal assistance program or project. The timing and amount of funds transfer must be as close as is administratively feasible to a State’s actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.



Government of the United States Virgin Islands  
 Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-010 (continued)**

***Condition Found***

During our testing to determine whether the Government complied with the terms and conditions established in 31 CFR 205 “Subpart B- Rules Applicable to Federal Assistance Programs Not included in a Treasury- State Agreement”, we selected a sample of forty-one (41) cash drawdowns (out of a population of 205 drawdowns) totaling \$1,635,563 (from a population of \$2,763,297). We noted that eleven (11) cash drawdowns tested did not comply with conditions established in 31 CFR 205. Additionally, we encountered two (2) items were submitted prior to the actual deposit date.

Item No.	Component	Amount	Payment Release Date	Actual Deposit Date	Check Release Date- Actual Deposit Date
1	Vendor Pay and all other costs	\$27,268.00	11/21/2012	12/7/2012	<b>16</b>
2	Vendor Pay and all other costs	11,030.00	1/2/2013	12/28/2012	<b>-5</b>
3	Salaries	16,848.00	11/15/2012	11/26/2012	<b>11</b>
4	Vendor Pay and all other costs	27,268.00	12/10/2012	12/7/2012	<b>-3</b>
5	Vendor Pay and all other costs	43,757.00	8/28/2013	9/13/2013	<b>16</b>
6	Vendor Pay and all other costs	15,516.00	8/17/2013	8/28/2013	<b>11</b>
7	Vendor Pay and all other costs	2,784.00	3/27/2013	5/6/2013	<b>40</b>
8	Vendor Pay and all other costs	3,904.00	5/6/2013	5/13/2013	<b>7</b>
9	Vendor Pay and all other costs	4,240.00	1/30/2013	2/6/2013	<b>7</b>
10	Vendor Pay and all other costs	43,757.00	8/15/2013	9/13/2013	<b>29</b>
11	Vendor Pay and all other costs	15,516.00	8/20/2013	8/28/2013	<b>8</b>

***Questioned Costs***

Not applicable.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-010 (continued)**

***Cause***

Internal Control over policies and procedures related to transfers of Federal Funds for Programs not included in the Treasury- State Agreement, do not appear to be operating effectively in order to minimize the timing between the release of the funds, and the transfers are made, to be as close as is administratively feasible.

***Effect***

Delays in requesting Federal funds could affect cash flow demands and may cause program activities to be funded by other programs' funds or by the Government's operating funds.

***Recommendation***

The Government should ensure that policies and procedures are enforced in order to comply with 31 CFR 205 Subpart B, and minimize the timing between the time funds are released and the transfers are made.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**U.S. Department of Agriculture**

**Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)  
CFDA No. 10.557**

The objective of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) is to provide supplemental nutritious foods, nutrition education, and referrals to health care for low-income persons during critical periods of growth and development. Such persons include pregnant women, breast-feeding women up to one year postpartum, non-breast-feeding women up to six months postpartum, infants (persons under one year of age), and children under age five determined to be at nutritional risk.

Total Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) federal expenditures for the fiscal year ended September 30, 2013 amounted to \$7,107,682.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-011**

***Program***

U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) – CFDA No. 10.557

***Category***

Internal Control / Compliance

***Compliance Requirement***

Special Tests and Provisions – Authorization of Above-50-Percent Vendors

***Criteria***

In accordance with 7 CFR Part 246.12(g)(4)(i)(D), the State agency that chooses to authorize any above-50-percent vendors: must ensure that the prices of above-50-percent vendors do not inflate the competitive price criteria and allowable reimbursement levels for the peer groups or result in higher total food costs if program participants transact their food instruments at above-50-percent vendors rather than at other vendors that do not meet the above-50-percent criterion. To comply with this requirement, the State agency must compare the average cost of each type of food instrument redeemed by above-50-percent vendors against the average cost of the same type of food instrument redeemed by regular vendors. The average cost per food instrument may be weighted to reflect the relative proportion of food instruments redeemed by each category of vendors in the peer group system. The State agency must compute statewide average costs per food instrument at least quarterly to monitor compliance with this requirement. If average payments per food instrument for above-50-percent vendors exceed average payments per food instrument to regular vendors, then the State agency must take necessary action to ensure compliance, such as adjusting payment levels. Where EBT systems are in use, it may be more appropriate to compare prices of individual WIC food items to ensure that average payments to above-50-percent vendors do not exceed average payments for the same food item to comparable vendors. If FNS determines that a State agency has failed to ensure that above-50-percent vendors do not result in higher costs to the program than if participants transact their food

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-011 (continued)**

***Criteria (continued)***

instruments at regular vendors, FNS will establish a claim against the State agency to recover excess food funds expended and will require remedial action. A State agency may exclude partially-redeemed food instruments from a quarterly cost neutrality assessment based on an empirical methodology approved by FNS. A State agency may not exclude food instruments from the quarterly cost neutrality assessment based on a rate of partially-redeemed food instruments.

***Condition Found***

As part of our internal controls and compliance testing over Authorization of Above-50-Percent Vendors, we noted the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) query results indicated the program had one vendor with greater than 50% of annual food sales derived from WIC Financial Instruments. After inquiries with management, EY learned that the vendor was not identified as an above-50-percent vendor when management had entered into business with them. However, during FY2013, other WIC vendors shutdown operations and this referred vendor became the only available vendor in Frederiksted area of the St. Croix district for a portion of the year under audit, which led to an increase in volume with this vendor and it becoming classified as above-50-percent vendor. During the evaluation of required procedures as per cited criteria, we learned management had failed to obtain FNS certification for the vendor and to conduct the required quarterly cost neutrality assessments during the FY2013 audit period.

***Questioned Costs***

Not applicable.

***Cause***

Internal controls over compliance with the requirements for Above-50-Percent Vendors were not operating effectively.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-011 (continued)**

***Effect***

WIC program participants could be charged prices that exceed those charged by regular vendors.

***Recommendation***

The Government should ensure that policies and procedures are enforced in order to comply with Authorization of Above-50-Percent Vendors compliance requirement.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**U.S. Department of Justice**

**Violence Against Women Formula Grants  
CFDA Nos. 16.588 and ARRA-16.588**

The Violence Against Women Formula Grants main objectives are to assist States, Indian tribal governments, tribal courts, State and local courts, and units of local government to develop and strengthen effective law enforcement and prosecution strategies to combat violent crimes against women, and develop and strengthen victim services in cases involving crimes against women. The Program encourages the development and implementation of effective, victim-centered law enforcement, prosecution, and court strategies to address violent crimes against women and the development and enhancement of victim services in cases involving violent crimes against women. For funds under the ARRA, the program also focuses on creating and retaining jobs and improving the economy.

Total Violence Against Women Formula Grants Federal expenditures for the year ended September 30, 2013, amounted to \$373,721.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-012**

***Program***

U.S. Department of Justice – Violence Against Women Formula Grants - CFDA Nos. 16.588 and ARRA-16.588

***Category***

Internal Control / Compliance

***Compliance Requirement:***

Reporting

***Criteria***

In accordance with 29 CFR 97.20 requirements: (a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. (b) The financial management systems of other grantees and subgrantees must meet the following standards (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant



Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-012 (continued)**

***Criteria (continued)***

or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible. (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

In accordance with 2 CFR section § 176.50: Award term—Reporting and registration requirements under section 1512 of the Recovery Act, Agencies are responsible for ensuring that their recipients report information required under the Recovery Act in a timely manner. The following award term shall be used by agencies to implement the recipient reporting and registration requirements in section 1512: (a) This award requires the recipient to complete projects or activities which are funded under the American Recovery and Reinvestment Act of 2009 (Recovery Act) and to report on use of Recovery Act funds provided through this award. Information from these reports will be made available to the public. (b) The reports are due no later than ten calendar days after each calendar quarter in which the recipient receives the assistance award funded in whole or in part by the Recovery Act. (c) Recipients and their first-tier recipients must maintain current registrations in the Central Contractor Registration (<http://www.ccr.gov>) at all times during which they have active federal awards funded with Recovery Act funds. A Dun and Bradstreet Data Universal Numbering System (DUNS) Number (<http://www.dnb.com>) is one of the requirements for registration in the Central Contractor Registration. (d) The recipient shall report the information described in section 1512(c) of the Recovery Act using the reporting instructions and data elements that will be provided online at <http://www.FederalReporting.gov> and ensure that any information that is pre-filled is corrected or updated as needed.

Government of the United States Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-012 (continued)**

***Condition***

We selected a sample of eight (8) Federal Financial Reports (SF-425) (out of a population of 16) to test compliance and internal control over reporting requirements. We noted a difference between the Financial Status Reports and the Accounting Records (ERP) regarding the expenditures for FY2013 for the following report:

Federal Expenditures of 2009 ARRA Grant for Period 7/1/2013-9/30/2013 as Per SF-425	\$48,370.83
Expenditures in ERP	7,638.87
<b>Difference</b>	<b>\$40,731.96</b>

We selected a sample of two (2) ARRA-1512 reports submitted during fiscal year (out of a total of 4 reports) to test compliance and internal controls over the Reporting requirement. We noted two (2) instances where management could not reconcile the difference between the ARRA Report and the ERP detail of expenditures, in the quarters ended 6/30/13 and 12/31/12; therefore, we could not ascertain that the underlying data was accurate and complete.

***Questioned Costs***

Not applicable.

***Cause***

The Local Emergency Planning Committee (LEPC) does not have internal controls in place, in order to ensure the accuracy of the information contained in the required reports, including reconciling federal expenditures with the Government's accounting records (ERP).

***Effect***

The Government could be reporting unallowable costs as federal expenditures. This may also lead to incorrect financial information presented in reports submitted to the federal government.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-012 (continued)**

***Recommendation***

The Government should implement procedures to ensure a proper reconciliation between accounting records (ERP) and Federal Financial Reports (SF-425) and ARRA-1512 reports.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-013**

***Program***

U.S. Department of Justice – Violence Against Women Formula Grants - CFDA Nos. 16.588 and ARRA-16.588

***Category***

Internal Control / Compliance

***Compliance Requirement***

Subrecipient Monitoring

***Criteria***

In accordance with 2 CFR 25.200: (a) Each agency that awards types of Federal financial assistance included in the definition of “award” in §25.305 must include the requirements described in paragraph (b) of this section in each program announcement, regulation, or other issuance containing instructions for applicants that either: (1) Is issued on or after the effective date of this part; or (2) Has application or plan due dates after October 1, 2010. (b) The program announcement, regulation, or other issuance must require each entity that applies and does not have an exemption under §25.110 to: (1) Be registered in the CCR prior to submitting an application or plan; (2) Maintain an active CCR registration with current information at all times during which it has an active Federal award or an application or plan under consideration by an agency; and (3) Provide its DUNS number in each application or plan it submits to the agency.

***Condition***

We selected a sample of four (4) subrecipients (out of a population of 5) to test control and compliance over the Subrecipient Monitoring compliance requirement. Management indicated that they did not obtain a DUNS number prior to issuing the sub-awards to The Legal Services of St. Thomas, the Women’s Coalition of St. Croix, and the Family Resource Center, who were subrecipients that received sub-awards after October 1, 2010.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-013 (continued)**

***Questioned Costs***

Not applicable.

***Cause***

Management does not have controls implemented to ensure a DUNS number is obtained from subrecipients prior to issuing the sub-award.

***Effect***

Non-compliance with federal regulations may result in a disallowance of funding.

***Recommendation***

The Government should ensure that policies and procedures are enforced in order to keep an accurate, detailed and proper monitoring for first tier sub-awards to ascertain if the pass-through entity obtained the DUNS number from non-ARRA subrecipients prior to issuance of the sub-award.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**U.S. Department of Justice**

**JAG Program Cluster**  
**CFDA Nos. 16.738 and ARRA-16.803**

The JAG Program Cluster (42 USC 3750) is the primary provider of Federal criminal justice funding to State and local jurisdictions. The JAG Program Cluster funds support all components of the criminal justice system, from multi-jurisdictional drug and gang task forces to crime prevention and domestic violence programs, courts, corrections, treatment, and justice information-sharing initiatives.

Total The JAG Program Cluster Federal expenditures for the fiscal year ended September 30, 2013 amounted to \$1,116,375.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-014**

***Program***

U.S. Department of Justice – JAG Program Cluster - CFDA Nos. 16.738 and ARRA-16.803

***Category***

Internal Control / Compliance

***Compliance Requirement***

Cash Management

***Criteria***

In accordance with Subpart B of 31 CFR part 205: (a) A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102 (For availability, see 5 CFR 1310.3.). (b) Neither a State nor the Federal government will incur an interest liability under this part on the transfer of funds for a Federal assistance program subject to this subpart B.

***Condition***

While performing our testing procedures to determine whether the client complies with the terms and conditions of Cash Management, we noted a difference between the Cash Drawdowns reports management provided us and ERP balances as follows:

Total Cash Draws per Reports	\$331,224
Total balance per ERP	249,723
<b>Difference</b>	<b>\$ 81,501</b>

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-014 (continued)**

***Condition (continued)***

Management was unable to reconcile such difference; therefore, they could not support compliance with Cash Management requirement.

***Questioned Costs***

Not applicable.

**Cause**

Internal controls were not operating effectively with regard to compliance with Cash Management Requirements.

***Effect***

The lack of reconciliations presents more potential for errors to go unnoticed for a significant amount of time. Lack of submission of required reports may result in a disallowance of funding.

**Recommendation**

The Government should ensure that policies and procedures are enforced in order to keep an accurate, detailed record of cash drawdowns throughout the year in order to reconcile the drawdowns with those entered in the ERP system.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.



Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-015**

***Program***

U.S. Department of Justice –JAG Program Cluster - CFDA Nos. 16.738 and ARRA-16.803

***Category***

Internal Control / Compliance

***Compliance Requirement***

Reporting

***Criteria***

In accordance with 29 CFR 97.20 requirements: (a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. (b) The financial management systems of other grantees and subgrantees must meet the following standards (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-015 (continued)**

***Criteria (continued)***

or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible. (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

In accordance with 2 CFR section § 176.50: Award term—Reporting and registration requirements under section 1512 of the Recovery Act, Agencies are responsible for ensuring that their recipients report information required under the Recovery Act in a timely manner. The following award term shall be used by agencies to implement the recipient reporting and registration requirements in section 1512: (a) This award requires the recipient to complete projects or activities which are funded under the American Recovery and Reinvestment Act of 2009 (Recovery Act) and to report on use of Recovery Act funds provided through this award. Information from these reports will be made available to the public. (b) The reports are due no later than ten calendar days after each calendar quarter in which the recipient receives the assistance award funded in whole or in part by the Recovery Act. (c) Recipients and their first-tier recipients must maintain current registrations in the Central Contractor Registration (<http://www.ccr.gov>) at all times during which they have active federal awards funded with Recovery Act funds. A Dun and Bradstreet Data Universal Numbering System (DUNS) Number (<http://www.dnb.com>) is one of the requirements for registration in the Central Contractor Registration. (d) The recipient shall report the information described in section 1512(c) of the Recovery Act using the reporting instructions and data elements that will be provided online at <http://www.FederalReporting.gov> and ensure that any information that is pre-filled is corrected or updated as needed.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-015 (continued)**

**Condition**

We selected a sample of eight (8) Federal Financial Reports (SF-425) (out of a population of 16) to test compliance and internal control over reporting requirements. We noted a difference between the Financial Status Reports and the Accounting Records (ERP) regarding the expenditures for FY2013 for the following reports:

Federal Expenditures as per 2009 ARRA Grant for Period 7/1/2013-9/30/2013 as Per SF-425	\$196,694.00
Expenditures in ERP	95,702.90
<b>Difference</b>	<b>\$100,991.10</b>
Federal Expenditures as per 2009 Grant for Period 7/1/2013-9/30/2013 as Per SF-425	\$149,260.70
Expenditures in ERP	-
<b>Difference</b>	<b>\$149,260.70</b>
Federal Expenditures as per 2010 Grant for Period 7/1/2013-9/30/2013 as Per SF-425	\$ 48,358.01
Expenditures in ERP	50,302.08
<b>Difference</b>	<b>\$ (1,944.07)</b>
Federal Expenditures as per 2009 ARRA Grant for Period 10/1/2012 - 12/31/2012 as Per SF-425	\$166,513.00
Expenditures in ERP	215,937.80
<b>Difference</b>	<b>\$ (49,424.80)</b>
Federal Expenditures as per 2010 Grant for Period 10/1/2012 - 12/31/2012 as Per SF-425	\$ 34,114.41
Expenditures in ERP	29,551.53
<b>Difference</b>	<b>\$ 4,562.88</b>

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-015 (continued)**

***Condition (continued)***

We selected a sample of two (2) ARRA 1512 reports submitted during fiscal year (out of a total of 4 reports) to test compliance and internal controls over the Reporting requirement. We noted one (1) instance where management was not able to provide the requested report for the quarter ended 3/31/13. In addition, we encountered one (1) instance where management could not reconcile the difference between the ARRA Report and the ERP detail of expenditures, in the quarter ended 6/30/13; therefore, we could not ascertain that the reported data was accurate and complete.

***Questioned Costs***

Not applicable.

***Cause***

The Government does not have internal controls in place, in order to ensure the accuracy of the information contained in the required reports, including reconciling federal expenditures with the Government's accounting records (ERP).

***Effect***

The Government could be reporting unallowable costs as federal expenditures. This may also lead to incorrect financial information presented in reports submitted to the federal government.

***Recommendation***

The Government should implement procedures to ensure a proper reconciliation between accounting records (ERP) and Federal Financial Reports (SF-425 and ARRA-1512).

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-016**

***Program***

U.S. Department of Justice –JAG Program Cluster - CFDA Nos. 16.738 and ARRA-16.803

***Category***

Internal Control / Compliance

***Compliance Requirement***

Subrecipient Monitoring

***Criteria***

In accordance with 2 CFR 25.200: (a) Each agency that awards types of Federal financial assistance included in the definition of “award” in §25.305 must include the requirements described in paragraph (b) of this section in each program announcement, regulation, or other issuance containing instructions for applicants that either: (1) Is issued on or after the effective date of this part; or (2) Has application or plan due dates after October 1, 2010. (b) The program announcement, regulation, or other issuance must require each entity that applies and does not have an exemption under §25.110 to: (1) Be registered in the CCR prior to submitting an application or plan; (2) Maintain an active CCR registration with current information at all times during which it has an active Federal award or an application or plan under consideration by an agency; and (3) Provide its DUNS number in each application or plan it submits to the agency.

In accordance with 31 USC 7502(f)(2):(2) Each pass-through entity shall (A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter;(B) monitor the subrecipient’s use of Federal awards through site visits, limited scope audits, or other means;(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings,

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-016 (continued)**

***Criteria (continued)***

as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and (D) require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

***Condition***

Management was unable to provide us with the supporting documentation of their monitoring procedures for one of their subrecipients, the Virgin Islands Prevention Council.

Furthermore, we selected a sample of two (2) subrecipients from a total population of four (4) subrecipients and noted management did not require a valid DUNS number from subrecipients prior to issuing the sub-awards.

***Questioned Costs***

Not applicable.

***Cause***

Management does not have controls implemented to ensure a DUNS number is obtained from subrecipients prior to issuing the sub-award and to ensure supporting documentation of subrecipient monitoring is kept on file for review.

***Effect***

This could result in Federal monies being spent by subrecipients on unallowable or unsupported costs, whereby the Government could be responsible for reimbursing the Department of Justice.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-016 (continued)**

***Recommendation***

The Government should ensure that policies and procedures are enforced in order to keep an accurate, detailed and proper monitoring for first tier sub-awards to ascertain if the pass-through entity obtained the DUNS number from non-ARRA subrecipients prior to issuance of the sub-award. Management should ensure proper records of the subrecipient monitoring procedures are maintained on file to ensure subrecipients have complied with applicable Federal grant requirements.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**U.S. Department of Health and Human Services**

**Temporary Assistance for Needy Families  
CFDA No. 93.558**

The objective of the Temporary Assistance for Needy Families program is to provide time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives; end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and encourage the formation and maintenance of two-parent families. This Program replaced the Aid to Families with Dependent Children (AFDC), Job Opportunities and Basic Skills Training (JOBS), and Emergency Assistance (EA) programs.

Total Temporary Assistance for Needy Families Federal expenditures for the fiscal year ended September 30, 2013 amounted to \$3,320,798.



Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-017**

***Program***

U.S. Department of Health and Human Services – Temporary Assistance for Needy Families - CFDA No. 93.558

***Category***

Internal Control / Compliance

***Compliance Requirement***

Special Tests and Provisions - Income Eligibility and Verification System (IEVS)

***Criteria***

Each State shall participate in the IEVS required by section 1137 of the Social Security Act as amended. Under the State Plan, the State is required to coordinate data exchanges with other federally assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies. HHS may penalize a State for up to two percent of the SFAG for failure to participate in IEVS (42 USC 609(a) (4) and 1320b-7; 45 CFR section 264.10 and 264.11). Specifically the state is required to request and obtain information as follow: (a) Wage information from the State Wage Information Collection Agency (SWICA) should be obtained for all applicants at the first opportunity following receipt of the application, and for all recipients on a quarterly basis; (b) Unemployment Compensation (UC) information should be obtained for all applicants at the first opportunity, and in each of the first 3 months in which the individual is receiving aid. This information should also be obtained in each of the first 3 month following any recipient-reported loss of employment. If an individual is found to be receiving UC, the information should be requested until benefits are exhausted; (c) All Available information from the Social Security Administration for all applicants at the first opportunity; (d) Information from the Immigration and Naturalization Service and any other information from other agencies in the State or in other States that might provide income or other useful information; (e) Unearned income from the Internal Revenue Service (IRS).

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-017 (continued)**

***Condition Found***

During our procedures to test the IEVS, we noted that the program did not have controls establishing and implementing the required IEVS system for data matching and verification and use of such data. When management provided the population of the participants of TANF cases subject to IEVS system, EY found that the population contained participants of SNAP. Since it was impossible to segregate the TANF participants from the SNAP participants, we could not ascertain that the underlying data was accurate and complete. As per consequence, the Government was not able to provide us with the following information required by the Compliance Supplement (a) Wage information from the State Wage Information Collection Agency (SWICA) should be obtained for all applicants at the first opportunity following receipt of the application, and for all recipients on a quarterly basis. (b) All Available information from the Social Security Administration for all applicants at the first opportunity. (c) Information from the Immigration and Naturalization Service and any other information from other agencies in the State or in other States that might provide income or other useful information. (d) Unearned income from the Internal Revenue Service (IRS).

***Questioned Costs***

Not applicable.

***Cause***

Current internal controls were not operating effectively with regard to compliance with Special Tests and Provisions requirements over the IEVS.

***Effect***

The Government may have awarded Federal funds to an individual or family which is not eligible to participate in the Program.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-017 (continued)**

***Recommendation***

Management of the Temporary Assistance for Needy Families Program should implement procedures to coordinate data exchanges with other federally assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Department of Human Services**

**Medical Assistance Program  
CFDA No. 93.778**

The objective of the Medical Assistance Program of the Social Security Act, as amended, (42 USC 1396 et seq.) is to provide payments for medical assistance to low-income persons who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children.

Total Medical Assistance Program Federal expenditures for the year ended September 30, 2013, amounted to \$15,355,529.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-018**

***Program***

U.S. Department of Human Services – Medical Assistance Program - CFDA 93.778

***Category***

Internal Control / Compliance

***Compliance Requirement***

Special Tests and Provisions – Utilization Control and Program Integrity

***Criteria***

The State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have: (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials (42 CFR parts 455, 456, and 1002).

*Suspected fraud should be referred to the State Medicaid Fraud Control Units (42 CFR part 1007).*

The State Medicaid agency must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services. The agency must have procedures for the ongoing post-payment review, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The State Medicaid agency may conduct this review directly or may contract with a QIO.

***Condition Found***

The Medical Assistance Program does not have the necessary controls in place to allow for the required investigation of utilization fraud.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-018 (continued)**

***Questioned Costs***

Not applicable.

***Cause***

The Department of Human Services does not have an effective system to identify and report suspected fraud.

***Effect***

There may be prolonged, ongoing cases of fraud which may be unnoticed and remain unreported by the program. The funds available are possibly being used inappropriately, with no way of properly identifying or tracking the amounts.

***Recommendation***

The Department should reconsider whether it would like to be directly responsible for Utilization Control and Program Integrity, or if the use of a quality improvement organization (QIO) would better suit the current program needs. Once this is decided, the program should take on the necessary steps to ensure compliance with this requirement. The written procedures should reflect the actual actions to be taken. In the event a QIO is used, the program should be involved enough, so that they are aware of the program's vulnerabilities and make the necessary changes to improve.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's findings and recommendations. Refer to the Correction Action Plan for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-019**

***Program***

U.S. Department of Human Services – Medical Assistance Program - CFDA No. 93.778

***Category***

Internal Control/Compliance

***Compliance Requirement***

Special Tests and Provisions – Inpatient Hospital and Long-Term Care Facility Audits

***Criteria***

The State Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers. The State Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. The State Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements will be established by the State Plan (42 CFR section 447.253).

***Condition Found***

We requested the cost reports for participating providers for 2013 and noted that the reviews of such cost reports have not been conducted.

***Questioned Costs***

Not applicable.

***Cause***

The Department of Human Services does not have effective controls to ensure that cost report audits are completed as required.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-019 (continued)**

***Effect***

The Department may be paying unreasonable rates for long term care facility services. This may result in overpayment to certain providers, thus depleting the available funds which may be used to benefit others.

**Recommendation**

The Department should ensure that regular audits are performed and costs are appropriately monitored.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's findings and recommendations. Refer to the Correction Action Plan for further details.



Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-020**

***Program***

U.S. Department of Human Services – Medical Assistance Program - CFDA No. 93.778

***Category***

Internal Control / Compliance

***Compliance Requirement***

Special Tests and Provisions – ADP Risk Analysis and System Security Review

***Criteria***

State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security Operating procedures and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR section 95.621).

***Condition Found***

The Government did not provide supporting documentation to evidence the performance of required ADP Risk Analysis and System Security Reviews.

***Questioned Costs***

Not applicable.

***Cause***

Although current policies and procedures include the performance of periodic ADP reviews, the Government does not have appropriate controls in place to ensure these procedures are performed.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)  
Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-020 (continued)**

***Effect***

The absence of policies to ensure these analyses and reviews are performed may lead to physical and data security issues, and noncompliance with Program requirements.

***Recommendation***

The Medical Assistance Program should establish appropriate policies to ensure that required analysis and reviews are being performed on at least an annual basis.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's findings and recommendations. Refer to the Correction Action Plan for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-021**

***Program***

U.S. Department of Human Services – Medical Assistance Program - CFDA No. 93.778

***Category***

Internal Control / Compliance

***Compliance Requirement***

Activities Allowed or Unallowed and Allowable Costs/Cost Principles – Recoveries, refunds and rebates.

***Criteria***

1. States must have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third-party resources should be exhausted prior to paying claims with program funds. Where a third-party liability is established after the claim is paid, reimbursement from the third party should be sought (42 CFR sections 433.135 through 433.154).
2. The State is required to credit the Medicaid program for (1) State warrants that are canceled and uncashed checks beyond 180 days of issuance (escheated warrants) and (2) overpayments made to providers of medical services within specified time frames. In most cases, the State must refund provider overpayments to the Federal Government within 60 days of identification of the overpayment, regardless of whether the overpayment was collected from the provider (42 CFR sections 433.300 through 433.320, and 433.40).

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-021 (continued)**

***Condition Found***

1. We requested a list of all third party obligations identified in 2013 in order to perform procedures to determine whether the obligations were exhausted prior to paying claims with federal funds. The program was not able to provide a complete list of all third party transactions processed throughout FY 2013.
  
2. We requested a listing of all uncashed /cancelled checks beyond 180 days of issuance. The program was unable to provide any information in this area.

***Questioned Costs***

Undeterminable.

***Cause***

The Government does not have effective procedures to ensure that rebates or recoveries of costs are properly tracked and recorded.

***Effect***

The possibility exists where overpayments may occur to providers. These overpayments may remain unnoticed.

***Recommendation***

The Medical Assistance Program should update its eligibility system so that it would facilitate review of third party obligations. Additionally, the program should ensure that periodic reports are requested from the Treasury which lists all uncashed checks exceeding 180 days, allowing them to easily recognize funds which may need to be returned to the grantor agencies or dealt with according to the appropriate Federal requirements.

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's findings and recommendations. Refer to the Correction Action Plan for further details.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-022**

***Program***

U.S. Department of Human Services – Medical Assistance Program - CFDA No. 93.778

***Category***

Compliance / Internal Control

***Compliance Requirement***

Special Tests and Provisions – Medicaid Fraud Control Unit (MFCU)

***Criteria***

States are required as part of their Medicaid State plans to maintain a MFCU, unless the Secretary of HHS determines that certain safeguards are met regarding fraud and abuse.

***Condition Found***

The U.S. Virgin Islands Medicaid program does not have in place a Medicaid Fraud Control Unit. We were not provided with a list of violations of Medicaid Laws and regulations.

***Questioned Costs***

Not applicable.

***Cause***

The Medicaid program has not established a Medicaid Fraud Control Unit.

***Effect***

Instances of provider fraud may go unnoticed, remain unreported and will not be prosecuted.

***Recommendation***

A Medicaid Fraud Control Unit needs to be implemented immediately, as it is a program requirement.

Government of the United States Virgin Islands  
Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Part III - Federal Awards Findings and Questioned Costs Section (continued)

**Finding Number: 2013-022 (continued)**

***Management's Response and Planned Corrective Actions***

The Government concurs with the auditor's findings and recommendations. Refer to the Correction Action Plan for further details.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings

September 30, 2013

Finding 12-09

<b>CFDA Number</b>	10.551, 10.561, 10.557, 17.225, 20.205, ARRA-20.205, 93.563, 93.558, 93.778
<b>Federal Agency</b>	US Department of Agriculture, US Department of Labor, US Department of Transportation, US Department of Health and Human Services,
<b>Name of Federal Program</b>	SNAP Cluster, Special Supplemental Nutrition Program for Women, Infants and Children (WIC), Unemployment Insurance, Highway Planning and Construction, Child Support Enforcement Program, Temporary Assistance for Needy Families, Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Cash Management
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Chief Financial Officer- DHS, Officer Manager and Accountant I, WIC-DOH, Director of Business and Administration – DOL, Assistant Director of Administration –DPW, Financial Control Officer, PCSD-DOJ, Chief Financial Officer –DHS.
<b>Status</b>	10.551, 10.561, 10.557, 93.563, 93.558 – Corrected 17.225, 20.205, ARRA-20.205, 93.778 – Not Corrected. Refer to current year findings 2013-009 and 2013-010.

Finding 12-10

<b>CFDA Number</b>	16.588, ARRA-16.588
<b>Federal Agency</b>	US Department of Justice
<b>Name of Federal Program</b>	Violence Against Women Formula Grants
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Grants Manager – LEPC, Fiscal Manager – LEPC
<b>Status</b>	Not Corrected. Refer to current year finding 2013-012.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 12-11

<b>CFDA Number</b>	16.738, ARRA -16.803
<b>Federal Agency</b>	US Department of Justice
<b>Name of Federal Program</b>	JAG Cluster
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Grants Manager – LEPC, Fiscal Manager – LEPC Not Corrected. Refer to current year finding 2013-015.

Finding 12-12

<b>CFDA Number</b>	ARRA -84.394, ARRA -84.397
<b>Federal Agency</b>	US Department of Education
<b>Name of Federal Program</b>	State Fiscal Stabilization Fund (SFSF) Cluster
<b>Type of Compliance Requirement</b>	Subrecipient Monitoring
<b>Amount of Questioned Cost:</b>	\$3,295,416 (all ARRA – 84.397)
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Director, Business and Administration –OOG Corrected.

Finding 12-13

<b>CFDA Number</b>	ARRA -84.394, ARRA -84.397
<b>Federal Agency</b>	US Department of Education
<b>Name of Federal Program</b>	State Fiscal Stabilization Fund (SFSF) Cluster
<b>Type of Compliance Requirement</b>	Activities Allowed or Unallowed/ Allowable Costs/Cost Principles
<b>Amount of Questioned Cost:</b>	\$159 (all ARRA)
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Director of Payroll –DOF Corrected.



Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 12-14

<b>CFDA Number</b>	93.558
<b>Federal Agency</b>	US Department of Health and Human Services
<b>Name of Federal Program</b>	Temporary Assistance for Needy Families
<b>Type of Compliance Requirement</b>	Special Tests and Provisions – Income Eligibility and Verification System (IEVS)
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Program Administrator –DHS
<b>Status</b>	Not Corrected. Refer to current year finding 2013-017.

Finding 12-15

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	US Department of Health
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Special Tests and Provisions – Utilization Control and Program Integrity
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Medicaid Program Director and DFA Administrator –DHS
<b>Status</b>	Not corrected. Refer to current year finding 2013-018.

Finding 12-16

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	US Department of Health
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Special Tests and Provisions – Inpatient Hospital and long-term Care Facility Audits
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	MIS Manager -DHS, Medicaid Program Director and DFA Administrator –DHS
<b>Status</b>	Not corrected. Refer to current year finding 2013-019.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 12-17

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	US Department of Health
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Special Tests and Provisions – ADP Risk and System Security Review
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Medicaid Program Director and DFA Administrator –DHS
<b>Status</b>	Not corrected. Refer to current year finding 2013-020.

Finding 12-18

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	US Department of Health
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Reporting and Matching, Level of Effort & Earmarking
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Medicaid Program Director and DFA Administrator –DHS, Chief Financial Officer DHS
<b>Status</b>	Corrected.

Finding 12-19

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	US Department of Health
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Reporting and Matching, Level of Effort & Earmarking
<b>Amount of Questioned Cost:</b>	\$32,889
<b>Contact Person Responsible for Corrective Action Plan</b>	Medicaid Program Director and DFA Administrator –DHS
<b>Status</b>	Corrected.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 12-20

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	US Department of Health
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Activities Allowed or Unallowed and Allowable Costs/Cost Principles – Recoveries, refunds and rebates
<b>Amount of Questioned Cost:</b>	Undeterminable
<b>Contact Person Responsible for Corrective Action Plan</b>	Medicaid Program Director and DFA Administrator –DHS, Chief Financial Officer DHS
<b>Status</b>	Not corrected. Refer to current year finding 2013-021.

Finding 12-21

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	US Department of Health
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Special Tests and Provisions – Medicaid Fraud Control Unit
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Medicaid Program Director and DFA Administrator –DHS
<b>Status</b>	Not corrected. Refer to current year finding 2013-022.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 11-09	
<b>CFDA Number</b>	10.551, 10.561, ARRA-10.561, 10.557, 17.225, ARRA-17.225, 20.205, ARRA-20.205, 93.563, 93.600, ARRA-93.708, 93.778
<b>Federal Agency</b>	U.S. Department of Agriculture, U.S. Department of Labor, U.S. Department of Transportation, U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	SNAP Cluster, Special Supplemental Nutrition Program for Woman, Infants, and Children (WIC), Unemployment Insurance, Highway Planning and Construction, Child Support Enforcement Program, Head Start Cluster, Medical Assistance Program (Medicaid)
<b>Type of Compliance Requirement</b>	Cash Management
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Chief Financial Officer – DHS, Officer Manager and Accountant I, WIC - DOH, Director of Business and Administration – DOL, Assistant Director of Administration – DPW, Financial Control Officer, PCSD – DOJ, Chief Financial Officer - DHS.
<b>Status</b>	10.551, 10.561, 10.557, 93.563, 93.558 – Corrected 17.225, 20.205, ARRA-20.205, 93.778 – Not Corrected. Refer to current year findings 2013-009 and 2013-010.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 11-10	
<b>CFDA Number</b>	12.401, 17.258, ARRA-17.258, ARRA-17.259, 81.041, ARRA-81.041, ARRA-84.394, ARRA-84.397, 93.558, 93.575
<b>Federal Agency</b>	U.S. Department of Defense, U.S. Department of Labor, U.S. Department of Energy, U.S. Department of Education, U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	National Guard Military Operations and Maintenance (O&M), WIA Cluster, State Energy Program, State Fiscal Stabilization Fund Cluster, Temporary Assistance for Needy Families, CCDF Cluster
<b>Type of Compliance Requirement</b>	Cash Management
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Director of Administration and Business Management – OTAG, Director of Business and Administration – DOL, Grant Manager - VIEO, Chief Financial Officer – DHS
<b>Status</b>	12.401, 17.258, ARRA-17.258, ARRA-17.259, 81.041, ARRA-81.041, ARRA-84.394, ARRA-84.397, 93.558, 93.575 – Corrected.

Finding 11-11	
<b>CFDA Number</b>	12.401
<b>Federal Agency</b>	Department of Defense
<b>Name of Federal Program</b>	National Guard Military Operations and Maintenance (O&M)
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Director of Administration and Business Management – OTAG
<b>Status</b>	Corrected.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 11-12

<b>CFDA Number</b>	17.258, ARRA-17.258, ARRA-17.259
<b>Federal Agency</b>	U.S. Department of Labor
<b>Name of Federal Program</b>	WIA Cluster
<b>Type of Compliance Requirement</b>	Eligibility
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Assistant Commissioner of Employment & Training (E&T) – DOL Corrected.

Finding 11-13

<b>CFDA Number</b>	17.258, ARRA-17.258, ARRA-17.259
<b>Federal Agency</b>	U.S. Department of Labor
<b>Name of Federal Program</b>	WIA Cluster
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Director of Administration – DOL Corrected.

Finding 11-14

<b>CFDA Number</b>	17.258, ARRA-17.258, ARRA-17.259
<b>Federal Agency</b>	U.S. Department of Labor
<b>Name of Federal Program</b>	WIA Cluster
<b>Type of Compliance Requirement</b>	Matching, Level of Effort, and Earmarking
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Assistant Commissioner of E&T – DOL Corrected.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 11-15

---

<b>CFDA Number</b>	20.205, ARRA-20.205
<b>Federal Agency</b>	Department of Transportation
<b>Name of Federal Program</b>	Highway Planning and Construction
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Program Manager, Federal Highway Office - DPW
<b>Status</b>	Corrected.

Finding 11-16

---

<b>CFDA Number</b>	81.041, ARRA-81.041
<b>Federal Agency</b>	U.S. Department of Energy
<b>Name of Federal Program</b>	State Energy Program
<b>Type of Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Availability
<b>Amount of Questioned Cost:</b>	\$25,093
<b>Contact Person Responsible for Corrective Action Plan</b>	Grant Manager – VIEO, Financial Programs Coordinator - VIEO
<b>Status:</b>	Corrected.

Finding 11-17

---

<b>CFDA Number</b>	84.394, ARRA-84.397
<b>Federal Agency</b>	U.S. Department of Education
<b>Name of Federal Program</b>	State Fiscal Stabilization Fund Cluster
<b>Type of Compliance Requirement</b>	Subrecipient Monitoring
<b>Amount of Questioned Cost:</b>	\$2,027,739
<b>Contact Person Responsible for Corrective Action Plan</b>	N/A
<b>Status</b>	Corrected.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 11-18

<b>CFDA Number</b>	84.394, ARRA-84.397
<b>Federal Agency</b>	U.S. Department of Education
<b>Name of Federal Program</b>	State Fiscal Stabilization Fund Cluster
<b>Type of Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Availability
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	N/A
<b>Status</b>	Corrected.

Finding 11-19

<b>CFDA Number</b>	93.558
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Temporary Assistance for Needy Families (TANF)
<b>Type of Compliance Requirement</b>	Equipment and Real Property Management
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Program Administrator – DHS
<b>Status</b>	Corrected.

Finding 11-20

<b>CFDA Number</b>	93.558
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Temporary Assistance for Needy Families (TANF)
<b>Type of Compliance Requirement</b>	Procurement, Suspension, and Debarment
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Program Administrator – DHS
<b>Status</b>	Corrected.



Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 11-21

---

<b>CFDA Number</b>	93.558
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Temporary Assistance for Needy Families (TANF)
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Program Administrator – DHS Corrected.

Finding 11-22

---

<b>CFDA Number</b>	93.558
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Temporary Assistance for Needy Families (TANF)
<b>Type of Compliance Requirement</b>	Special Tests and Provisions – Income Eligibility and Verification Systems (IEVS)
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Program Administrator – DHS Not Corrected. Refer to current year finding 2013-017.

Finding 11-23

---

<b>CFDA Number</b>	93.563
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Child Support Enforcement
<b>Type of Compliance Requirement</b>	Matching, Level of Effort, and Earmarking
<b>Amount of Questioned Cost:</b>	\$34,328
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Director of PCSD - DOJ, Financial Control Officer – DOJ Corrected.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 11-24

---

<b>CFDA Number</b>	93.563
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Child Support Enforcement
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Director of PCSD - DOJ, Financial Control Officer – DOJ
<b>Status</b>	Corrected.

Finding 11-25

---

<b>CFDA Number</b>	93.563
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Child Support Enforcement
<b>Type of Compliance Requirement</b>	Special Tests and Provisions – Securing and Enforcing Medical Support Obligations
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	MIS Manager – DOS, Program Administrator, PCSD - DOJ
<b>Status</b>	Corrected.

Finding 11-26

---

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Availability
<b>Amount of Questioned Cost:</b>	\$28,880
<b>Contact Person Responsible for Corrective Action Plan</b>	Medicaid Program Director – DHS
<b>Status</b>	Corrected.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 11-27

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Availability
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Chief Financial Officer - DHS Not Corrected. Refer to current year finding 2013-021.

Finding 11-28

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Eligibility
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Medicaid Program Director and DFA Administrator - DHS Corrected.

Finding 11-29

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Matching, Level of Effort, and Eligibility
<b>Amount of Questioned Cost:</b>	\$374,572
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Medicaid Program Director – DHS Corrected.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 11-30

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Medicaid Program Director – DHS
<b>Status</b>	Corrected.

Finding 11-31

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Special Tests and Provisions – Utilization Control and Program Integrity
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Medicaid Program Director and DFA Administrator - DHS
<b>Status</b>	Not Corrected. Refer to current year finding 2013-018.

Finding 11-32

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Special Tests and Provisions – Inpatient Hospital and Long-term Care Facility Audits
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Medicaid Program Director and DFA Administrator - DHS
<b>Status</b>	Not Corrected. Refer to current year finding 2013-019.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 11-33

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Special Tests and Provisions – ADP Risk and System Security Review
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Medicaid Program Director and DFA Administrator - DHS
<b>Status</b>	Not Corrected. Refer to current year finding 2013-020.

Finding 11-34

<b>CFDA Number</b>	93.778
<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Name of Federal Program</b>	Medical Assistance Program (Medicaid; Title XIX)
<b>Type of Compliance Requirement</b>	Special Tests and Provisions – Medicaid Fraud Control Unit
<b>Amount of Questioned Cost:</b>	N/A
<b>Contact Person Responsible for Corrective Action Plan</b>	Medicaid Program Director and DFA Administrator - DHS
<b>Status</b>	Not Corrected. Refer to current year finding 2013-022.

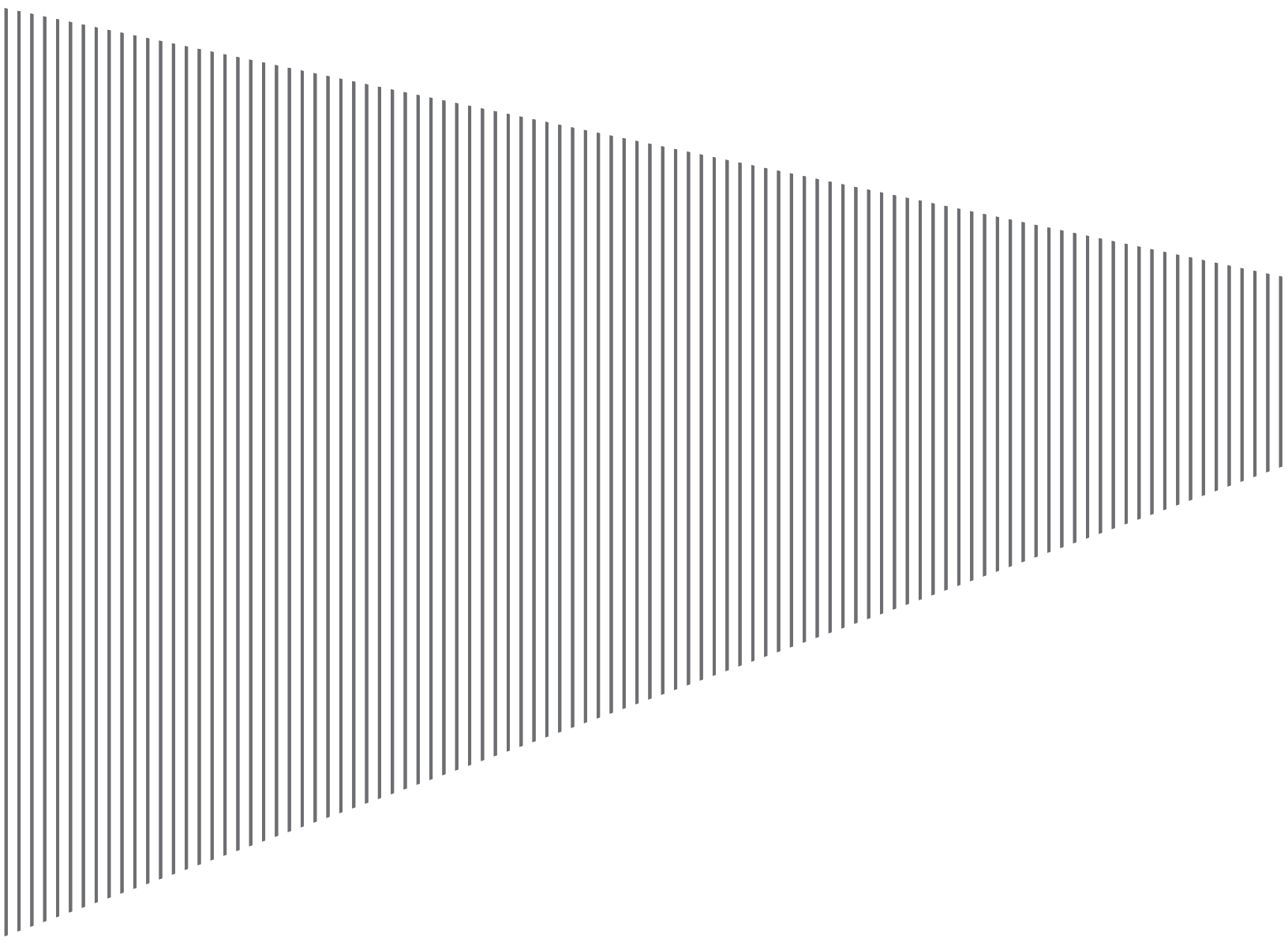
**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

© 2013 Ernst & Young LLP.  
All Rights Reserved.

**[ey.com](http://ey.com)**





# **GOVERNMENT**

**of the**

**UNITED STATES VIRGIN ISLANDS**

**FY 2013 Corrective Action Plan**

**for the**

**Fiscal Year 2013 Single Audit**

**June 30, 2014**

Government of the United States Virgin Islands  
FY 2013 Corrective Action Plan for the FY 2013 Single Audit

**TABLE OF CONTENTS**

<b>I. Financial Statement Findings.....</b>	<b>1</b>
Finding No. 2013-001 – Internal Control – Tax Revenues Processes.....	1
Finding No. 2013-002 – Internal Control – Capital Assets.....	2
Finding No 2013-003 – Internal Control – Accounts Payable Reconciliations.....	2
Finding No. 2013-004 – Internal Control – Retroactive Pay Liability .....	3
Finding No. 2013-005 – Internal Control – Bank Reconciliation.....	4
Finding No. 2013-006 – Internal Control – Medical Malpractice Claims .....	5
Finding No. 2013-007 – Internal Control – Component Units .....	5
Finding No. 2013-008 – Internal Control/Compliance – Schedule of Expenditures of Federal Awards (SEFA).....	6
<b>II. Federal Programs – CFDA #s 20.205, ARRA 20.205 and 93.778.....</b>	<b>7</b>
Finding No. 2013-009– Cash Management.....	7
<b>III. Unemployment Insurance – CFDA #17.225.....</b>	<b>11</b>
Finding No. 2013-010 – Cash Management.....	11
<b>IV. Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) – CFDA# 10.557.....</b>	<b>12</b>
Finding No. 2013-011 – Special Tests and Provisions- Authorization of Above 50 Percent Vendors.....	12
<b>V. Violence Against Women Formula Grants – CFDA #s 16.588 and ARRA 16.588.....</b>	<b>13</b>
Finding No. 2013-012 – Reporting.....	13
Finding No. 2013-013 – Subrecipient Monitoring.....	14



Government of the United States Virgin Islands  
 FY 2013 Corrective Action Plan for the FY 2013 Single Audit

<b>VI. Recovery Act – Edward Byrne Memorial Justice Assistance Program - CFDA #s 16.738 and ARRA 16.803.....</b>	<b>15</b>
Finding No. 2013-014– Cash Management.....	15
Finding No. 2013-015 – Reporting.....	16
Finding No 2013-016 – Subrecipient Monitoring.....	17
<b>VII. Temporary Assistance for Needy Families (TANF) – CFDA # 93.558.....</b>	<b>19</b>
Finding No. 2013-017 – Special Tests and Provisions: Income Eligibility and Verification System (IEVS).....	19
<b>VIII. Medical Assistance Program (Medicaid) – CFDA #93.778 .....</b>	<b>20</b>
Finding No. 2013-018 – Special Tests and Provisions – Utilization Control and Program Integrity.....	20
Finding No. 2013-019 – Special Tests and Provisions – Inpatient Hospital and Long-term Care Facility Audits.....	21
Finding No. 2013-020 – Special Tests and Provisions – ADP Risk Analysis and System Security Review.....	21
Finding No. 2013-021 - Activities Allowed or Unallowed – Allowable Costs/Cost Principles/Cost – Recoveries, Refunds and Rebates.....	22
Finding No. 2013-022 - Special Tests and Provisions – Medicaid Fraud Control Unit.....	23

# Financial Statements

## **Finding No. 2013-001**

Management's calculation of its tax revenues and accounts receivable processes were not properly performed, resulting in significant audit adjustments. The following items resulted in audit adjustments which could have been prevented if Management had implemented sound internal controls over its tax revenue and accounts receivable recognition processes: (a) Management calculation for property tax receivables was not properly calculated and thus significant audit adjustments were proposed in order to correctly present these accounts, and (b) inaccuracy of the accounts receivable aging due to subsequent collections being applied to the year-end balance.

### **Government's Response**

The Government concurs with the auditor's finding. The implementation in FY 2013 of Tax Express Scanoptic System by the Internal Revenue Bureau did create some challenges at the end of the Fiscal Year; and may have contributed to the need for significant adjustments. These have been duly noted and all parties have been apprised of the effects of certain processes.

### **Action Plan:**

The Department of Finance (DOF) will collaboratively work with IRB and LGO to implement an acceptable formula to calculate the tax receivables. The DOF will on a monthly basis reconcile all tax revenues posted to the ERP against IRB and LGO's localized reports.

The Governor's Financial Team also monitors the allowance for doubtful accounts, the estimate of income tax, property tax revenues and related tax credits on a monthly basis to validate that the correct data is used in the estimation processes. This has greatly reduced the audit adjustments.

**Implementation Date:** FY 2013 and on-going

**Person(s) Responsible:** The management team of DOF, BIR & LGO.

## **Finding No. 2013-002**

During Ernst and Young's (E&Y) review of capital asset accounts, E&Y noted projects capitalized in the incorrect asset class. E&Y also noted transfers of assets from construction in progress included as an addition instead of as a transfer from construction in progress. In addition, E&Y noted assets capitalized in the incorrect period creating a cut-off issue. Even though, E&Y has noticed a significant improvement on capital assets when compared to prior year.

### **Government's Response**

The Government concurs with the auditor's finding and recommendations. In addition, the Government concurs that a better system needs to be implemented to automate the process of project capitalization.

### **Action Plan:**

The Department of Finance will continue implementation to automate the process of project capitalization thereby reducing or eliminating the miscategorization of the various capital asset categories as well as reducing the risk of omitting capitalizable projects.

A quarterly review of assets, as well as proper implementation of the Fixed Asset Module should be implemented. This needs to be a joint effort between the DOF and all related agencies.

**Implementation Date:** FY 2014 and on-going

**Person(s) Responsible:** The management team of DOF, PFA, P&P, and DPW.

## **Finding No. 2013-003**

Lack of controls over the accounts payable ERP module and accounts payable reconciliations has made it difficult for the Government to establish its accounts payable subledger. Management establishes its accounts payable subledger through a manually intensive process, in addition to the lack of processes to accurately estimate accrued liabilities as part of the financial statement close process. This resulted in audit significant adjustments in the Government's financial statements.

### **Government's Response**

The Government concurs with the auditor's finding and recommendations.

Government of the United States Virgin Islands  
FY 2013 Corrective Action Plan for the FY 2013 Single Audit

**Action Plan:**

The Department of Finance along with the other central service agencies will continue to establish specific policies and procedures, as well as a standard set of definitions for expenditure object codes to assist department/agencies in the proper use and allocation of expenditures.

The deficiencies in the accounts payable data for invoice payments continue to improve due to the implementation and updating of policies and procedures, follow-up ERP training and daily monitoring. In light of these actions delineated above, the DOF continues to see significant progress in the presentation of supporting documentation for the payment of invoices.

**Implementation Date:** FY 2008 and on-going

**Person(s) Responsible:** The management team of DOF.

## **Finding No. 2013-004**

The Government was not able to substantiate its calculation of the retroactive pay liability, which resulted in a qualification of the opinion of governmental activities in the Government's basic financial statements.

### **Government's Response**

The Government concurs with the auditor's finding and recommendations.

**Action Plan:**

The Government remains committed to ensuring that significant liabilities are recalculated and corrected. However, due to funding limitation and personnel constraints, the Division of Personnel was not able to complete the recalculations prior to the close of the FY 2013 audit. The Government anticipates that funding will be available in FY 2015 which will allow for the completion of the recalculations in time for the FY 2014 audit.

**Implementation Date:** October 2012 and on-going

**Due Date:** June 20, 2015

**Person(s) Responsible:** Department of Finance and Division of Personnel

## **Finding No. 2013-005**

During the audit, Ernst and Young (E&Y) noted that bank reconciliations were not being performed on a timely basis. Most bank reconciliations were completed, reviewed and approved after 365 days. As a result, reconciling items with inaccuracies that should have been identified during the review process were unheeded resulting in material misstatements.

### **Government's Response**

While Management concurs with the observation that automation of the bank reconciliations should occur, steps have already been taken to address this issue with the banking institutions to receive the information in a format that will allow for elimination of the manual processes that are required to reconcile the bank accounts.

Bank reconciliations are completed quarterly, December, March, June, September of the respective year, however, they can only be fully finished when all relevant information is received from external agencies and bank institutions. On occasion, some bank statements are not received until 4-6 weeks after the end of the month, however all bank accounts are reconciled within a 60-75 day period after receipt of the bank statement, not 365 days.

Unique to the Fiscal Year 2013, was the implementation by the Government of the Virgin Islands Internal Revenue Bureau of the Scanoptics System. As a new implementation, it created new and unique challenges to the bank reconciliations and posting of revenues of a few of the larger accounts. This issue has been addressed and DOF do not foresee a future negative impact on bank reconciliations. The process of consolidating and reducing the number of bank accounts was started in FY 2013 and will continue until the desired goal of no more than 10 bank accounts is accomplished.

### **Action Plan:**

The DOF will rely on on-line bank statements in order to expedite the bank reconciliation process. This will thereby eliminate the time lag that currently exists as a result of waiting for hard copies of bank statements to arrive. Also, discussions will continue with the respective bank regarding the complete automation of the reconciliation process. Additional efforts will be made to have revenues posted in "real time" by the collectors.

These efforts will be further substantiated by DOF's efforts to reduce the number of bank accounts managed by the DOF.

**Implementation Date:** FY 2008 & on-going

**Person(s) Responsible:** The management team of DOF.

## **Finding No. 2013-006**

The Government did not establish a liability for medical malpractice claims.

### **Government's Response**

The Government concurs with the auditor's finding and recommendations.

### **Action Plan:**

The services of an actuarial firm for medical malpractice claims will once again be undertaken to continue efforts to improve the accuracy of the financial statements.

**Implementation Date:** FY 2012 and on-going

**Person(s) Responsible:** The management team of DOF and DOH.

## **Finding No. 2013-007**

Lack of review of classification and reporting of transactions with component units led to errors, resulting in significant audit adjustments.

### **Government's Response**

The Government concurs with the auditor's finding and recommendations.

### **Action Plan:**

The Government will continue its efforts implementing a "Component Unit Reporting Package", which should result in more timely and accurate financial statements from the component units of the Government of the United States Virgin Islands.

**Implementation Date:** FY 2011 and on-going

**Person(s) Responsible:** The management team of DOF and the component units of the Virgin Islands Government.

## **Finding No. 2013-008**

During the performance of the audit procedures, Ernst and Young (E&Y) received various versions of the Schedule of Expenditures of Federal Awards (SEFA). E&Y noted the original versions did not include non-cash items or other program adjustments. Such adjustments included:

- Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) Food Commodities of \$ 56,990,836.
- Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (CFDA No. 10.557) Food Commodities of \$ 5,048,805.
- Unemployment Insurance (CFDA No. 17.225) Benefits of \$ 46,802,451.
- Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (CFDA No. 10.557) adjustment of \$ 961,004 reclassifying program rebates previously presented as revenue against program Food Commodities expenditures.

Additionally, there are no procedures established to ascertain completeness and accuracy of the SEFA provided to the auditors. Furthermore, the government did not appropriately identify ARRA funds within the schedule or verify documentation of CFDA numbers and program/cluster titles according to the Catalog of Federal Domestic Assistance.

### **Government's Response**

The Government concurs with the auditor's finding and recommendations.

### **Action Plan:**

The Department of Finance will continue to provide training and support to the various departments and agencies to eliminate the discrepancies between the SEFA information provided in the ERP and the source documents. Additionally, the existing policies and procedures relative to this area will be reviewed and appropriately updated and revised in support of this action.

**Due Date:** FY 2015

**Person(s) Responsible:** The management team of DOF.

# Federal Programs (HP&C and MAP) CFDA Nos. 20.205, ARRA 20.205, and 93.778

## Finding No. 2013-009

### *Highway Planning and Construction CFDA Nos. 20.205 and ARRA 20.205*

During Ernst and Young’s (E&Y) assessment to determine whether the Government complied with the terms and conditions of the Cash Management Improvement Act (CMIA), E&Y selected a sample of sixty (60) cash drawdowns (out of a population of 601). E&Y noted that fifty-nine (59) out of the 60 drawdowns selected for testing totaling \$879,114 did not comply with the average clearance pattern established in the CMIA.

One (1) of the fifty-nine (59) items were submitted prior to the actual deposit date. Additionally, E&Y encountered seven (7) instances where the program was unable to provide support to confirm that the funds were deposited as required.

#### *Funding Techniques per Cash Management Improvement Act Agreement (continued):*

Item No.	Component	Amount	Check Release Date	Actual Deposit Date	Check Release-Actual Deposit Date	ARRA	Non-ARRA
1	Vendor Payments and all other payments	\$19,930.89	1/22/2013	2/5/2013	14		x
2	Vendor Payments and all other payments	18.73	4/13/2013	12/20/2013	251		x
3	Vendor Payments and all other payments	1,289.95	3/19/2013	4/15/2013	27		x
4	Vendor Payments and all other payments	14.38	4/13/2013	12/20/2013	251		x
5	Vendor Payments and all other payments	20.00	4/13/2013	12/20/2013	251		x
6	Vendor Payments and all other payments	66.05	8/14/2013	12/20/2013	128		x
7	Vendor Payments and all other payments	20.77	8/14/2013	12/20/2013	128		x
8	Vendor Payments and all other payments	322.77	8/14/2013	12/20/2013	128		x
9	Vendor Payments and all other payments	119.01	8/14/2013	12/20/2013	128		x
10	Vendor Payments and all other payments	3,836.80	10/2/2013	3/24/2014	173		x
11	Vendor Payments and all other payments	3,500.00	9-17/2013	9/24/2013	7		x
12	Vendor Payments and all other payments	4,848.00	9/4/2013	3/24/2014	201		x
13	Vendor Payments and all other payments	3,653.80	8/17/2013	3/24/2014	219		x
14	Vendor Payments and all other payments	3,845.60	8/7/2013	3/24/2014	229		x



Government of the United States Virgin Islands  
FY 2013 Corrective Action Plan for the FY 2013 Single Audit

Item No.	Component	Amount	Check Release Date	Actual Deposit Date	Check Release-Actual Deposit Date	ARRA	Non-ARRA
15	Vendor Payments and all other payments	2,972.16	7/26/2013	3/24/2014	241		x
16	Vendor Payments and all other payments	3,653.80	7/24/2013	3/24/2014	243		x
17	Vendor Payments and all other payments	3,836.80	7/24/2013	3/24/2014	243		x
18	Vendor Payments and all other payments	6,023.20	7/12/2013	3/24/2014	255		x
18	Vendor Payments and all other payments	3,109.62	1/22/2013	2/15/2013	24		x
20	Vendor Payments and all other payments	3,653.86	1/11/2013	2/15/2013	35		x
21	Vendor Payments and all other payments	4,442.30	12/28/2012	2/15/2013	49		x
22	Vendor Payments and all other payments	724.98	10/13/2012	-	-		x
23	Vendor Payments and all other payments	28,716.61	7/24/2013	8/21/2013	28		x
24	Vendor Payments and all other payments	27,659.71	5/13/2013	7/12/2013	60		x
25	Vendor Payments and all other payments	267.00	3/21/2013	5/9/2013	49		x
26	Vendor Payments and all other payments	24,093.03	10/10/2013	11/19/2013	40		x
27	Vendor Payments and all other payments	10,556.26	12/18/2012	12/24/2012	6	x	
28	Vendor Payments and all other payments	222,001.70	11/21/2012	11/14/2012	-7	x	
29	Vendor Payments and all other payments	283,162.02	12/18/2012	8/20/2013	245	x	
30	Vendor Payments and all other payments	82.14	6/5/2013	6/20/2013	15		x
31	Vendor Payments and all other payments	11.76	4/13/2013	5/9/2013	26		x
32	Vendor Payments and all other payments	12.10	4/13/2013	5/9/2013	26		x
33	Vendor Payments and all other payments	6.87	3/5/2013	4/20/2013	46		x
34	Vendor Payments and all other payments	9.21	3/5/2013	4/20/2013	46		x
35	Vendor Payments and all other payments	9.55	3/5/2013	4/20/2013	46		x
36	Vendor Payments and all other payments	8.73	3/5/2013	4/20/2013	46		x
37	Vendor Payments and all other payments	3,300.00	9/23/2013	10/11/2013	18		x
38	Vendor Payments and all other payments	82,166.86	12/29/2012	1/10/2013	12		x
39	Vendor Payments and all other payments	28.65	3/5/2013	4/20/2013	46		x
40	Vendor Payments and all other payments	498.90	9/4/2013	-	-		x
41	Vendor Payments and all other payments	228.00	8/12/2013	-	-		x
42	Vendor Payments and all other payments	10.55	6/5/2013	7/29/2013	54		x
43	Vendor Payments and all other payments	84.03	6/5/2013	6/20/2013	15		x
44	Vendor Payments and all other payments	10,602.00	3/18/2013	-	-		x
45	Vendor Payments and all other payments	5,007.70	11/30/2012	1/21/2013	52		x
46	Vendor Payments and all other payments	4,038.46	11/20/2012	2/15/2013	87		x
47	Vendor Payments and all other payments	3,836.80	11/20/2012	2/15/2013	87		x
48	Vendor Payments and all other payments	4,444.26	11/20/2012	2/15/2013	87		x
49	Vendor Payments and all other payments	84,919.09	10/01/2013	10/11/2013	10		x
50	Vendor Payments and all other payments	175.20	8/29/2013	-	-		x
51	Vendor Payments and all other payments	1,000.00	3/25/2013	-	-		x
52	Vendor Payments and all other payments	500.00	12/7/2012	-	-		x
53	Vendor Payments and all other payments	4,807.20	2/14/2013	2/15/2013	1		x

Government of the United States Virgin Islands  
 FY 2013 Corrective Action Plan for the FY 2013 Single Audit

Item No.	Component	Amount	Check Release Date	Actual Deposit Date	Check Release-Actual Deposit Date	ARRA	Non-ARRA
54	Vendor Payments and all other payments	3,576.80	12/12/2012	2/15/2013	65		x
55	Vendor Payments and all other payments	77.81	1/9/2013	1/17/2013	8		x
56	Vendor Payments and all other payments	78.02	1/9/2013	1/17/2013	8		x
57	Vendor Payments and all other payments	84.09	1/9/2013	1/17/2013	8		x
58	Vendor Payments and all other payments	85.32	11/23/2012	12/1/2012	8		x
59	Vendor Payments and all other payments	71.20	1/28/2013	2/11/2013	14		x

**Government's Response**

The Department of Public Works (DPW) concurs with this finding.

**Action Plan:**

The U.S. Virgin Islands Federal Highway Administration (FHWA) Program continues to communicate with the Office of FHWA in Puerto Rico regarding the implementation of the electronic Rapid Assessment Payment System (RASPS).

**Implementation Date:** FY 2014 (Communication re: RASPS & Treasury – State Agreement)

**Due Date:** To be determined re: RASPS implementation and new Treasury State Agreement

**Person Responsible:** Assistant Director of Administration - DPW

***Medical Assistance Program (Medicaid)***  
***CFDA No. 93.778***

During Ernst and Young's (E&Y) assessment to determine whether the Government complied with the terms and conditions of the CMIA Treasury-State Agreement, E&Y selected a sample of twelve (12) cash drawdowns (out of a population of 60) totaling \$2,272,899 (from a population of \$15,326,347). E&Y noted that six (6) drawdowns selected for testing did not comply with the CMIA as follows:

Item #	Component	Amount	Payment Release Date	Actual Deposit Date	Check Release Date- Actual Deposit Date
1	Vendor Pay and all other costs	\$324,717.37	8/28/2013	9/26/2013	29
2	Salaries	29,951.02	8/22/2013	8/27/2013	5
3	Salaries	28,079.73	6/27/2013	7/8/2013	11

Government of the United States Virgin Islands  
 FY 2013 Corrective Action Plan for the FY 2013 Single Audit

Item #	Component	Amount	Payment Release Date	Actual Deposit Date	Check Release Date- Actual Deposit Date
4	Vendor Pay and all other costs	685,175.48	5/21/2013	5/28/2013	7
5	Vendor Pay and all other costs	161,726.15	4/17/2013	5/16/2013	29
6	Vendor Pay and all other costs	112,240.38	3/13/2013	3/21/2013	8

**Government's Response**

The Department of Human Services (DHS) concurs with this finding.

**Action Plan:**

The Department of Human Services (DHS) continues to make great leaps to meet the necessary requirements on drawing funds in line with the CMIA regulations. DHS continues reviewing its procedures to address this process. Reconciliations continue on a monthly basis with the ERP for drawdowns and expenditures. Drawdowns are posted immediately to the ERP as they are completed. For payroll expenditures, funds are drawn the day before the check date to ensure funds are available to meet the payroll deadline, which will result in 26 paydays. DHS tracks other expenditures in the ERP when checks are run by the Department of Finance in order to draw for those expenditures within the 4 day requirement. Although DHS does not control when checks are mailed, DHS works to address any problems that are encountered to accomplish these requirements.

**Implementation Date:** October 1, 2012 and on-going

**Responsible Person:** Chief Financial Officer - DHS

## Unemployment Insurance CFDA No. 17.225

### Finding No. 2013-010

During Ernst and Young’s (E&Y) testing to determine whether the Government complied with the terms and conditions established in 31 CFR 205 “Subpart B- Rules Applicable to Federal Assistance Programs not included in a Treasury - State Agreement”, E&Y selected a sample of forty-one (41) cash drawdowns (out of a population of 205 drawdowns) totaling \$1,635,563 (from a population of \$2,763,297). E&Y noted that eleven (11) cash drawdowns tested did not comply with conditions established in 31 CFR 205. Additionally, E&Y encountered two (2) items were submitted prior to the actual deposit date.

Item No.	Component	Amount	Payment Release Date	Actual Deposit Date	Check Release Date- Actual Deposit Date
1	Vendor Pay and all other costs	\$27,268.00	11/21/2012	12/7/2012	16
2	Vendor Pay and all other costs	11,030.00	1/2/2013	12/28/2012	-5
3	Salaries	16,848.00	11/15/2012	11/26/2012	11
4	Vendor Pay and all other costs	27,268.00	12/10/2012	12/7/2012	-3
5	Vendor Pay and all other costs	43,757.00	8/28/2013	9/13/2013	16
6	Vendor Pay and all other costs	15,516.00	8/17/2013	8/28/2013	11
7	Vendor Pay and all other costs	2,784.00	3/27/2013	5/6/2013	40
8	Vendor Pay and all other costs	3,904.00	5/6/2013	5/13/2013	7
9	Vendor Pay and all other costs	4,240.00	1/30/2013	2/6/2013	7
10	Vendor Pay and all other costs	43,757.00	8/15/2013	9/13/2013	29
11	Vendor Pay and all other costs	15,516.00	8/20/2013	8/28/2013	8

#### Action Plan:

VIDOL has implemented the Cash Management and Draw Down Policy as indicated in FY 2012 Corrective Action Plan. VIDOL continues to collaborate and coordinate with VIDOF in obtaining check release dates and the check disbursement log while conducting regular quarterly reconciliations. VIDOL has seen an improvement in this area; however, VIDOL has recommended a joint meeting with all GVI agencies and DOF to address ways to streamline processes in order to adhere to the CMIA Treasury-State Agreement.

**Implementation Date:** January 1, 2012 and on-going

**Person Responsible:** Director of Business and Administration - DOL

## **Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) CFDA No. 10.557**

### **Finding No. 2013-011**

As part of Ernst and Young's (E&Y) internal controls and compliance testing over Authorization of Above-50-Percent Vendors, E&Y noted the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) query results indicated the program had one vendor with greater than 50% of annual food sales derived from WIC Financial Instruments. After inquiries with management, E&Y learned that the vendor was not identified as an above -50-percent vendor when management had entered into business with them. However, during FY 2013, other competing vendors shut down operations and they became the only available seller in St. Croix territory which led to them being classified as above-50-percent for the audit period. During the evaluation of required procedures as per OMB A-133 Compliance Supplement, E&Y learned management had failed to obtain FNS certification for the vendor and to conduct the required quarterly cost neutrality assessments during the FY 2013 audit period.

### **Government's Response**

The Department of Health concurs with this finding.

During FY 2013 two (2) WIC vendors shut down operations and the vendor became the only available vendor in the Frederiksted area of St. Croix for a period of 4 months before other WIC vendors were able to be authorized in that area; this resulted in an increase in participant volume. Therefore, the increase in WIC sales was responsible for the vendor becoming classified as an above-50-percent vendor for the audit period.

### **Action Plan:**

VI WIC will develop policies and procedures to enforce compliance with authorization of Above-50-percent vendors.

**Due Date:** September 30, 2014

**Person Responsible:** Vendor Monitor - DOH

## **Violence Against Women Formula Grants CFDA Nos. 16.588 and ARRA16.588**

### **Finding No. 2013-012**

Ernst and Young (E&Y) selected a sample of eight (8) Federal Financial Reports (SF-425) (out of a population of 16) to test compliance and internal control over reporting requirements. E&Y noted a difference between the Financial Status Reports and the Accounting Records (ERP) regarding the expenditures for FY 2013 for the following report:

Federal Expenditures of 2009 ARRA Grant for Period 7/1/2013-9/30/2013 as Per SF-425	\$48,370.83
Expenditures in ERP	7,638.87
<b>Difference</b>	<b>\$40,731.96</b>

E&Y selected a sample of two (2) ARRA-1512 reports submitted during the fiscal year (out of a total of 4 reports) to test compliance and internal controls over the Reporting requirement. E&Y noted two (2) instances where management could not reconcile the difference between the ARRA Report and the ERP detail of expenditures, in the quarters ended 6/30/13 and 12/31/12; therefore, E&Y could not ascertain that the underlying data was accurate and complete.

### **Government's Response**

The Law Enforcement Planning Commission (LEPC) concurs with this finding.

Government of the United States Virgin Islands  
FY 2013 Corrective Action Plan for the FY 2013 Single Audit

**Action Plan:**

The Fiscal Unit, along with the Grant Director and Grant Manager, will again review the records, reconcile the approved expenditures and verify that the Federal Financial Reports (FFRs) correctly report expenditures against the grant.

This is a requirement of the policy and procedures of the Agency. To ensure that this is done in the future it will be required of the Fiscal Unit and the Grant Manager to submit to the Director a signed copy of the reconciliation used in the filing of the FFRs.

**Due Date:** March 31, 2015

**Person(s) Responsible:** Fiscal Management Supervisor, LEPC  
Financial Specialist, LEPC  
Grant Manager, LEPC  
Victim Service Director, LEPC

## **Finding No. 2013-013**

In accordance with 2 CFR 25.200: (a) Each agency that awards types of Federal financial assistance included in the definition of “award” in §25.305 must include the requirements described in paragraph (b) of this section in each program announcement, regulation, or other issuance containing instructions for applicants that either: (1) Is issued on or after the effective date of this part; or (2) Has application or plan due dates after October 1, 2010. (b) The program announcement, regulation, or other issuance must require each entity that applies and does not have an exemption under §25.110 to: (1) Be registered in the CCR prior to submitting an application or plan; (2) Maintain an active CCR registration with current information at all times during which it has an active Federal award or an application or plan under consideration by an agency; and (3) Provide its DUNS number in each application or plan it submits to the agency.

Ernst and Young (E&Y) selected a sample of four (4) subrecipients (out of a population of 5) to test control and compliance over the Subrecipient Monitoring compliance requirement. Management indicated that they did not obtain a DUNS number prior to issuing the subawards to The Legal Services of St. Thomas, the Women’s Coalition of St. Croix, and the Family Resource Center, who were subrecipients that received subawards after October 1, 2010.

### **Government’s Response**

The Law Enforcement Planning Commission (LEPC) concurs with this finding. LEPC required DUNS numbers from the ARRA grant sub-recipients but not from the-not-for-profit organizations that received funding from grants prior to FY 2013.

**Action Plan:**

Going forward LEPC will inform the subrecipients that funding will not be awarded to applicants without the required DUNS number. Subrecipients will be notified by phone, email or hard copy communication. This requirement will now become part of the application process. Notification will be sent out by July 15, 2014.

**Due Date:** July 15, 2014

**Person Responsible:** Grant Manager - LEPC  
Victim Service Director - LEPC

## **Edward Byrne Memorial Justice Assistance Grant (JAG) Cluster CFDA Nos. 16.738 and ARRA 16.803**

### **Finding No. 2013-014**

While performing testing procedures to determine whether the client complies with the terms and conditions of Cash Management, management provided Ernst and Young (E&Y) with the Cash Drawdowns reports requested, but was unable to reconcile the reports to ERP expenditures. Therefore, E&Y was unable to perform the control and compliance testing over Cash Management Compliance requirements.

#### **Government's Response**

The Law Enforcement Planning Commission (LEPC) concurs with this finding. This occurred because some of the funding was not posted to the ERP System, but was still in an account managed by the Department of Finance.

#### **Action Plan:**

LEPC will ensure that Federal Funds drawn down into the designated bank account are posted in the government accounting system within five (5) business days of the funds reflected in the bank account.



Government of the United States Virgin Islands  
 FY 2013 Corrective Action Plan for the FY 2013 Single Audit

**Due Date:** July 1, 2014

**Person Responsible:** Financial Management Supervisor - **LEPC**  
 Financial Specialist - LEPC

**Finding No. 2013-015**

Ernst and Young (E&Y) selected a sample of eight (8) Federal Financial Reports (SF-425) (out of a population of 16) to test compliance and internal control over reporting requirements. E&Y noted a difference between the Financial Status Reports and the Accounting Records (ERP) regarding the expenditures for FY 2013 for the following reports:

Federal Expenditures as per 2009 ARRA Grant for Period 7/1/2013-9/30/2013 as Per SF-425	\$196,694.00
Expenditures in ERP	95,702.90
<b>Difference</b>	<b>\$100,991.10</b>
Federal Expenditures as per 2009 Grant for Period 7/1/2013-9/30/2013 as Per SF-425	\$149,260.70
Expenditures in ERP	-
<b>Difference</b>	<b>\$149,260.70</b>
Federal Expenditures as per 2010 Grant for Period 7/1/2013-9/30/2013 as Per SF-425	\$ 48,358.01
Expenditures in ERP	50,302.08
<b>Difference</b>	<b>\$ (1,944.07)</b>
Federal Expenditures as per 2009 ARRA Grant for Period 10/1/2012 – 12/31/2012 as Per SF-425	\$166,513.00
Expenditures in ERP	215,937.80
<b>Difference</b>	<b>\$ (49,424.80)</b>
Federal Expenditures as per 2010 Grant for Period 10/1/2012 – 12/31/2012 as Per SF-425	\$ 34,114.41
Expenditures in ERP	29,551.53
<b>Difference</b>	<b>\$ 4,562.88</b>

E&Y selected a sample of two (2) ARRA 1512 reports submitted during the fiscal year (out of a total of 4 reports) to test compliance and internal controls over the Reporting requirement. E&Y noted one (1) instance where management was not able to provide the requested report for the quarter ended 3/31/13. In addition, E&Y encountered one (1) instance where management could not reconcile the difference between the ARRA Report and the ERP detail of expenditures, in the quarter ended 6/30/13; therefore, E&Y could not ascertain that the underlying data was accurate and complete.

Government of the United States Virgin Islands  
FY 2013 Corrective Action Plan for the FY 2013 Single Audit

**Government's Response**

The Law Enforcement Planning Commission (LEPC) concurs with this finding. Notwithstanding LEPC's concurrence with the findings, it must be noted that the 3/31/13 reporting period was the period when LEPC and USDOJ were working to reconcile the Tax ID numbers so that the report could be processed. The report in question could not be filed for that reason. The challenge was finally resolved around the middle of the third quarter. The ARRA grant has been closed as of February 2014.

**Action Plan:**

LEPC will require that Grant Managers and the Fiscal Unit submit signed reconciliation summaries to the Director or his designee before FFRs are filed. The policy already stipulates a time for the filing of these reports. LEPC will review the ERP reports for the periods mentioned to verify the amounts to be reported. LEPC will communicate with the grantor agency to have the reports corrected. If the grants are still active the correction will be reflected in upcoming reports.

**Due Date:** June 30, 2015

**Person Responsible:** Fiscal Management Supervisor - LEPC  
Financial Specialist - LEPC  
Grant Manager/Administrator - LEPC

**Finding No. 2013-016**

In accordance with 2 CFR 25.200: (a) Each agency that awards types of Federal financial assistance included in the definition of "award" in §25.305 must include the requirements described in paragraph (b) of this section in each program announcement, regulation, or other issuance containing instructions for applicants that either: (1) Is issued on or after the effective date of this part; or (2) Has application or plan due dates after October 1, 2010. (b) The program announcement, regulation, or other issuance must require each entity that applies and does not have an exemption under §25.110 to: (1) Be registered in the CCR prior to submitting an application or plan; (2) Maintain an active CCR registration with current information at all times during which it has an active Federal award or an application or plan under consideration by an agency; and (3) Provide its DUNS number in each application or plan it submits to the agency.

In accordance with 31 USC 7502(f)(2):(2) Each pass-through entity shall: (A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; (B) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means; (C) review the audit of a

Government of the United States Virgin Islands  
FY 2013 Corrective Action Plan for the FY 2013 Single Audit

subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and (D) require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

Management was unable to provide the supporting documentation for their monitoring procedures for one (1) of their subrecipients, the Virgin Islands Prevention Council.

Furthermore, E&Y selected a sample of two (2) subrecipients from a total population of four (4) subrecipients and noted management did not require a valid DUNS numbers from subrecipients prior to issuing the subawards.

**Government's Response**

The Law Enforcement Planning Commission (LEPC) concurs with this finding.

**Action Plan:**

As it relates to the requirement for the DUNS number from applicants, LEPC will inform its present grant recipients by phone, email, hardcopy or written communication, that registration with CCR and/or SAM (System for Award Management) and the acquisition of a DUNS number are mandatory for receipt of funds. This requirement will now become part of the application process. Notification will be sent out by July 15, 2014.

LEPC will ensure that all monitoring documentation, whether generated through a site visit or a desk audit, be kept in the file created for each subrecipient.

**Due Date:** July 15, 2014

**Person Responsible:** Grant Administrator/Manager - LEPC

# **Temporary Assistance for Needy Families (TANF) CFDA No. 93.558**

## **Finding No. 2013-017**

During Ernst and Young's (E&Y) procedures to test the IEVS, E&Y noted that the program did not have in place the controls establishing and implementing the required IEVS system for data matching and verification an use of such data. When management provided the population of the participants of TANF cases subject to IEVS system, E&Y found that the population contained participants of SNAP. Since it was impossible to segregate the TANF participants from the SNAP participants, E&Y could not ascertain that the underlying data was accurate and complete. As per consequence, the Government was not able to provide the following information required by the Compliance Supplement: (a) Wage information from the State Wage Information Collection Agency (SWICA) should be obtained for all applicants at the first opportunity following receipt of the application, and for all recipients on a quarterly basis; (b) All Available information from the Social Security Administration for all applicants at the first opportunity; (c) Information from the Immigration and Naturalization Service and any other information from other agencies in the State or in other States that might provide income or other useful information; and (d) Unearned income from the Internal Revenue Service (IRS).

### **Government's Response**

The Department of Human Services (DHS) concurs with this finding.

### **Action Plan:**

The automated system between DHS and DOL was set up and is functional. DHS currently does the Income Eligibility and Verification System (IEVS) monthly matching; however, the personnel report findings were due to untimely entries being placed into the Client Application, Registration, and Issuance of Benefits System (CARIBS). A report worker has been assigned to enter IEVS matched data into the CARIBS case management system where necessary.

**Implementation Date:** October 2012

**Person Responsible:** Program Administrator – DHS

# Medical Assistance Program (Medicaid) CFDA No. 93.778

## **Finding No. 2013-018**

The Medical Assistance Program does not have the necessary controls in place to allow for the required investigation of utilization fraud.

### **Government's Response**

The Department of Human Services (DHS) concurs with this finding.

### **Action Plan:**

The Medical Assistance Program (MAP) was transferred to the Department of Human Services, Division of Family Assistance (DFA) in FY 2013. The department is integrating MAP into its Management Evaluation Unit and also assigning a MAP Front-end Worker on each island to sample and review MAP cases for integrity. Also, with the implementation of the MMIS, the department now has the ability to run integrity algorithms to red flag suspicious Medicaid transactions and take appropriate administrative and legal action in concert with CMS. Training and business process alignment are underway.

The Department will provide staffing resource to ensure compliance. DHS will also provide written procedures to comply with program integrity policies with the help of CMS and acquire training for staff to ensure compliance with this requirement.

**Due Date:** 1<sup>st</sup> quarter of 2015

**Person Responsible:** Medicaid Program Director - **DHS**  
DFA Administrator - DHS

## **Finding No. 2013-019**

The State Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers. The State Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. The State Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements will be established by the State Plan (42 CFR section 447.253).

Ernst and Young (E&Y) requested the cost reports for participating providers for 2013 and noted that the reviews of such cost reports have not been conducted.

### **Government's Response**

The Department of Human Services (DHS) concurs with this finding.

#### **Action Plan:**

The Department of Human Services has put out an RFP for cost reporting. The RFP was publically posted by the Department of Property and Procurement. It is expected that a company will be contracted within sixty (60) days of the closing posting period and work on the cost reporting will ensue.

**Implementation Date:** FY 2013 and on-going

**Person Responsible:** MIS Manager - DHS  
Medicaid Program Director - DHS

## **Finding No. 2013-020**

The Government did not provide supporting documentation to evidence the performance of required ADP Risk Analysis and System Security Reviews.

### **Government's Response**

The Department of Human Services (DHS) concurs with this finding.

Government of the United States Virgin Islands  
FY 2013 Corrective Action Plan for the FY 2013 Single Audit

**Action Plan:**

DHS put out an RFP for ADP. A vendor was selected and a contract was developed and approved by the Department of Property and Procurement. Charter meetings have been conducted with the vendor and ADP is underway.

**Implementation Date:** October 2013 and on-going

**Person Responsible:** Medicaid Program Director – DHS  
DFA Administrator - DHS

**Finding No. 2013-021**

States must have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third-party resources should be exhausted prior to paying claims with program funds. Where a third-party liability is established after the claim is paid, reimbursement from the third party should be sought (42 CFR sections 433.135 through 433.154).

The State is required to credit the Medicaid program for (1) State warrants that are canceled and uncashed checks beyond 180 days of issuance (escheated warrants) and (2) overpayments made to providers of medical services within specified time frames. In most cases, the State must refund provider overpayments to the Federal Government within 60 days of identification of the overpayment, regardless of whether the overpayment was collected from the provider (42 CFR sections 433.300 through 433.320, and 433.40).

Ernst and Young (E&Y) requested a list of all third party obligations identified in 2013 in order to perform procedures to determine whether the obligations were exhausted prior to paying claims with federal funds. The program was not able to provide a complete list of all third party transactions processed throughout FY 2013.

E&Y requested a listing of all uncashed/cancelled checks beyond 180 days of issuance. The program was unable to provide any information in this area.

**Government's Response**

The Department of Human Services (DHS) concurs with this finding.

Government of the United States Virgin Islands  
FY 2013 Corrective Action Plan for the FY 2013 Single Audit

**Action Plan:**

The Department of Human Services will update its eligibility system so that it would facilitate review of third party obligations. The program will request and conduct quarterly reviews and reports requesting uncashed checks from the Treasury which lists all uncashed checks exceeding 180 days, allowing us to easily recognize funds which may need to be returned to the grantor agencies or dealt with according to the appropriate Federal requirements.

**Implementation Date:** FY 2013 and on-going

**Person Responsible:** Medicaid Program Director – DHS  
Chief Financial Officer - DHS

**Finding No. 2013-022**

States are required as part of their Medicaid State plans to maintain a Medicaid Fraud Control Unit (MFCU), unless the Secretary of HHS determines that certain safeguards are met regarding fraud and abuse.

The U.S. Virgin Islands Medicaid Program does not have in place a Medicaid Fraud Control Unit. Ernst and Young (E&Y) was not provided with a list of violations of Medicaid laws and regulations.

**Government's Response**

The Department of Human Services (DHS) concurs with this finding.

**Action Plan:**

The Department of Human Services has done the following: hired a dedicated Fraud Worker just for MAP; sent Fraud staff to the National Association for Program Information and Performance Management (NAPIPM) training on MAP Fraud and Quality Control; conducted MAP Fraud and QC training for MAP fraud worker on March 19-20, 2014; conducted meetings in establishing methods or criteria for identifying suspected fraud cases; and drafted a Memorandum of Understanding (MOU) for establishing an agreement with the Attorney General's Office (V.I. Department of Justice) on investigation and prosecution of fraud.



Government of the United States Virgin Islands  
FY 2013 Corrective Action Plan for the FY 2013 Single Audit

**Implementation Date:** Fiscal Year 2013 and on-going

**Person Responsible:** Medicaid Program Director - **DHS**