Government of the United States Virgin Islands

Management's Discussion
and Analysis, Financial Statements
(with Independent Auditor's Report Thereon)
and Required Supplementary Information
Year Ended September 30, 2014

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Contents

Independent Auditor's Report	4-9
Management's Discussion and Analysis (MD & A)	10-20
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	21-22
Statement of Activities	23-24
Fund Financial Statements:	
Balance Sheet – Governmental Funds	25
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds	27
Statement of Net Position – Proprietary Funds	28
Statement of Revenues, Expenses, and Changes in Fund Net position (Deficit) – Proprietary Funds	29
Statement of Cash Flows – Proprietary Funds	30
Statement of Fiduciary Net Position – Fiduciary Funds	31
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	32
Notes to Basic Financial Statements	33-113
Required Supplementary Information	
Required Supplementary Information (other than MD&A):	
Schedule of Funding Progress	114-115
Schedule of Employer Contributions	116
Schedule of Revenues and Expenditures – Budget and Actual – Budgetary Basis – General Fund	117
Notes to Schedule of Revenues and Expenditures – Budget and Actual Budgetary Basis – General Fund	118-119

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Independent Auditor's Report

To 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, 2014, 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 accordance with accounting principles generally accepted in the United States of America; 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 funds and/or component units:

- The Virgin Islands Lottery (V.I. Lottery), a nonmajor enterprise fund, which represents 0.3% and 5.9%, respectively, of the assets, and revenues/additions of the Aggregate Remaining Fund Information, and 3.6%, 14.1%, and 18.1%, respectively, of the assets, net position, and revenue of the Business-Type Activities. The V.I. Lottery net deficit represents $3.0 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 85.4%, 89.9%, and 55.5%, respectively, of the assets, net position/fund balance, and revenue of the Aggregate Remaining Fund Information.

The Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (VIPTS), Virgin Islands Economic Development Authority (VIEDA), Virgin Islands Waste Management Authority (VIWMA), University of the Virgin Islands (UVI), University of the Virgin Islands Research and Technology Park Corporation (RTPark), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Governor Juan F. Luis Hospital and Medical Center), and the Virgin Islands Housing Finance Authority (VIHFA), discretely-presented component units, which collectively represent 42.4%, 56.3%, and 45.2%, respectively, of the assets, net position, and revenue of the Aggregate Discretely-Presented Component Units.

- The Virgin Islands Public Finance Authority (PFA), a blended component unit which represents 30.7% and 18.6%, respectively of the assets and revenues of the Governmental Activities; 81.4% and 36.8%, respectively of the assets and revenues of the Business-Type Activities; 100% of the assets, net position/fund balance, and revenues of the West Indian Company; 100% of the assets, net position/fund balance, and revenues of the Public Finance Authority Debt Service Fund; 100% of the assets, net position/fund balance, and revenues of the Public Finance Authority Capital Projects Fund; and 7.5%, 4.8%, and 10.6%, respectively, of the assets, net position/fund balance, and revenue of the Aggregate Remaining Fund Information.

- The Tobacco Settlement Financing Corporation (TSFC), a nonmajor governmental fund, which represents 1.1%, and .8%, respectively, of the assets and revenue of the Aggregate Remaining Fund Information, and .9% and .2%, respectively, of the assets and revenue of the Governmental Activities. The TSFC net deficit represents $7.9 million of the $1.3 billion net position/fund balance of the Aggregate Remaining Fund Information and of the $1.4 billion net deficit of the Governmental Activities.

Those financial statements were audited by other auditors whose reports 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 of America 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. The financial statements of the Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Governor Juan F. Luis Hospital and Medical Center) were not audited in accordance with *Government Auditing Standards*. 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, Unemployment Insurance-Enterprise Fund, 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 and other auditors have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion Unit	Type of Report
Governmental Activities	Qualified
Business-Type Activities	Disclaimer
General Fund	Qualified
Debt Service Fund	Unmodified
Capital Projects Fund	Unmodified
Federal Grants Fund	Unmodified
West Indian Company-Enterprise Fund	Unmodified
Unemployment Insurance-Enterprise Fund	Disclaimer
Aggregate Remaining Fund Information	Disclaimer
Aggregate Discretely-Presented Component Units	Qualified

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 and for the year ended September 30, 2014. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments to these balances were required in the Governmental Activities.

Basis for Qualified Opinion on General Fund and on Governmental Activities

The Government did not maintain the requisite documentation to support its income tax receivables, refunds payables, and revenues in the amounts of $152 million, $89.3 million, and $617 million, respectively, as of and for the year ended September 30, 2014. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments to these balances were required in the General Fund and in the Governmental Activities.

The Government did not maintain the requisite documentation to support its determination as to the sufficiency of the design and operation of key controls surrounding the environment in which Medicaid claims are processed. As such, we were unable to determine whether adjustments were required in the General Fund and in the Governmental Activities.

Basis for Qualified Opinion on Aggregate Discretely-Presented Component Units

The reports of other auditors on the 2014 financial statements of VIPTS and VIWMA, discretely-presented component units, were qualified because the auditors were unable to obtain sufficient audit evidence to determine whether capital assets of $5.6 million and $93.9 million at each respective component unit, were fairly stated.

The report of other auditors on the 2014 financial statements of RTPark, a discretely-presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether the equity interest in each of its tenant's companies was fairly stated. The value of these tenant equity interests is not included in the financial statements.

Qualified Opinion

In our opinion, based on our audit and the reports of other auditors, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs above, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities, the General Fund, and the Aggregate Discretely-Presented Component Units of the Government of the United States Virgin Islands as of September 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2014, may have been affected by this condition.

Basis for Disclaimer Opinion on Unemployment Insurance-Enterprise Fund and on Business-Type Activities

We were unable to extend audit procedures and obtain sufficient appropriate evidence with respect to cash, premium receivables, and benefits payable as presented in the Unemployment Insurance-Enterprise Fund. We are therefore, unable to determine the extent by which the Unemployment Insurance-Enterprise Fund and Business-Type Activities as of and for the year ended September 30, 2014, may have been affected by this condition.

Basis for Disclaimer Opinion on the Aggregate Remaining Fund Information

The report of other auditors on the 2014 financial statements of GERS, a fiduciary component unit (pension trust fund), was qualified because GERS maintained investments in a limited partnership valued at $33 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 paragraphs above, 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, the Unemployment Insurance-Enterprise Fund, 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, other than the General Fund and the Unemployment Insurance-Enterprise Fund of the Government of the United States Virgin Islands, as of September 30, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters
As discussed in Note 15 to the financial statements, the Government reported an unrestricted net deficit in Governmental Activities and in the General Fund. Management's plans regarding those matters are also described in Note 15. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

As discussed in Note 17 to the financial statements, in 2014, the Government adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinion, based on our audit and the reports of other auditors, is not modified with respect to this matter.

As discussed in Note 17, certain adjustments were applied to restate beginning net position and fund balance. Our opinion, based on our audit and the reports of other auditors, is not modified with respect to this matter.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedules of funding progress and employer contributions, and the schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund listed on pages 10 through 20 and 114 through 116 and 117 through 119, 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

Management has omitted the budgetary comparison information for the Federal Grants Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015, 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.

BDO USA, LLP

September 30, 2015

Management's Discussion and Analysis

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, 2014 and 2013.

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.

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, the PFA capital projects fund and the Federal grants fund are reported as major governmental funds.

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 Federal grants fund accounts for proceeds and federal payments that are legally restricted for expenditures for federally specified purposes.

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.

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 participated 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 2014, the Government issued the 2014 Series A (Working Capital) Revenue Bonds, the proceeds of which amounted to $49.6 million. The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the 2014 Series A Revenue Bonds. The 2014 Series A Bonds bear interest at 5.00%, and mature from 2015 to 2034. 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.

In fiscal year 2014, the Government also issued the 2013 Series B Revenue Refunding Bonds (the "2013 Series B Bonds"), the proceeds of which amounted to $51.4 million. The Government has pledged matching funds, for the timely payment of the principal and interest on the 2013 Series B Bonds. The 2013 Series B Bonds bear interest at rates ranging from 3.00% to 5.00%, and mature in 2024. The bonds were issued to: (i) refund a portion of the 2004 Series A Bonds amounting to $48.3 million, (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds.

Financial Analysis of the Primary Government

Total assets and deferred outflows of resources of the PG as of September 30, 2014 and 2013 were approximately $1.9 billion and $1.8 billion, respectfully. Total liabilities were approximately $3.4 billion as of September 30, 2014 and 2013.

As of September 30, 2014, the PG net position was a deficit of $1.5 billion that consisted of $354 million invested in capital assets, net of related debt; $257 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 $2.1 billion. As of September 30, 2013, the PG net deficit of $1.5 billion consisted of $295 million invested in capital assets, net of related debt; $290 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 $2.1 billion.

For the fiscal year ended September 30, 2014, the PG earned program and general revenue amounting to $1.4 billion and reported expenses of $1.3 billion, resulting in an increase in net gain position of approximately $100 million. For the fiscal year ended September 30, 2013, the PG earned program and general revenue amounting to $1.3 billion and reported expenses of $1.4 billion, resulting in an increase in net deficit of $100 million.

Overall, revenue increased by approximately $124 million in fiscal 2014, when compared to fiscal 2013, mainly due to increases in grant revenue of $32 million and tax revenues of $95 million and interest and other revenue of $9 million, offset by decreases in charges for services of $12 million. Overall expenses decreased in fiscal 2014 by $66 million when compared to fiscal 2013, mainly due to decreases in general government expenditures of $112 million, offset by increases in transportation expenditures of $34 million and public housing expenditures of $20 million.

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

September 30,	Governmental Activities 2014	Governmental Activities 2013 (As restated)	Business-Type Activities 2014	Business-Type Activities 2013 (As restated)	Total 2014	Total 2013 (As restated)
Assets and Deferred Outflows						
Current assets	$ 934,219	$ 855,840	$ 34,037	$ 39,179	$ 968,256	$ 895,019
Internal balances	38,968	37,378	(38,968)	(37,378)	-	-
Capital assets	821,033	800,234	135,272	102,481	956,305	902,715
Other assets	5,059	-	1,003	-	6,062	-
Deferred outflow of resources	12,417	46,652	-	-	12,417	46,652
Total assets and deferred outflows	1,811,696	1,740,104	131,344	104,282	1,943,040	1,844,386
Liabilities						
Long-term debt outstanding	2,724,072	2,691,892	53,276	41,983	2,777,348	2,733,875
Other liabilities	528,075	532,281	99,100	103,168	627,175	635,449
Total liabilities	3,252,147	3,224,173	152,376	145,151	3,404,523	3,369,324
Net Position						
Net investment in capital assets	247,208	213,426	106,754	81,293	353,962	294,719
Restricted	247,000	277,752	9,973	11,864	256,973	289,616
Unrestricted (deficit)	(1,934,659)	(1,975,247)	(137,759)	(134,026)	(2,072,418)	(2,109,273)
Total net position (deficit)	$ (1,440,451)	$ (1,484,069)	$ (21,032)	$ (40,869)	$ (1,461,483)	$ (1,524,938)

	Governmental Activities		Business-Type Activities		Total	
September 30,	2014	2013	2014	2013	2014	2013
		(As restated)		*(As restated)*		*(As restated)*
Revenue						
Program revenue						
Charges for services	$ 17,587	$ 20,491	$ 50,085	$ 59,649	$ 67,672	$ 80,140
Operating grants and contributions	268,648	214,646	5,274	15,944	273,922	230,590
Capital grants and contributions	24,653	26,755	19,898	28,774	44,551	55,529
General revenue						
Taxes	963,861	869,103	-	-	963,861	869,103
Interest and other	40,964	44,199	17,489	5,467	58,453	49,666
Other general revenue	2,318	2,134	-	-	2,318	2,134
Total revenue	1,318,031	1,177,328	92,746	109,834	1,410,777	1,287,162
Expenses						
General government	588,291	700,672	-	-	588,291	700,672
Public safety	63,933	53,873	-	-	63,933	53,873
Health	44,049	56,533	-	-	44,049	56,533
Public housing and welfare	173,897	153,895	-	-	173,897	153,895
Education	231,774	229,021	-	-	231,774	229,021
Transportation and communication	51,899	17,938	-	-	51,899	17,938
Culture and recreation	7,948	7,613	-	-	7,948	7,613
Interest on long-term debt	107,322	106,000	-	-	107,322	106,000
Unemployment insurance	-	-	20,997	21,167	20,997	21,167
West Indian Company	-	-	10,963	9,871	10,963	9,871
Workmen's compensation	-	-	10,205	9,297	10,205	9,297
VI Lottery	-	-	17,779	20,061	17,779	20,061
Other	-	-	18,266	28,249	18,266	28,249
Total expenses	1,269,113	1,325,545	78,210	88,645	1,347,323	1,414,190
Changes in net position (deficit) before transfers	48,918	(148,217)	14,536	21,189	63,454	(127,028)
Transfers	(5,300)	700	5,300	(700)	-	-
Change in net position (deficit)	43,618	(147,517)	19,836	20,489	63,454	(127,028)
Net position (deficit), beginning of year, as restated	(1,484,069)	(1,336,552)	(40,869)	(61,358)	(1,524,938)	(1,397,910)
Net position (deficit), end of year	$ (1,440,451)	$ (1,484,069)	$ (21,033)	$ (40,869)	$ (1,461,484)	$ (1,524,938)

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 the Required Supplemental Information accompanying the basic financial statements. A summary of the budgetary report for the General Fund of the PG, included on page 117 of the financial statements, follows:

September 30, 2014	Original Budget	Amended Budget	Actual	Variance
Total revenues	$ 606,353	$ 606,353	$ 706,478	$ (100,125)
Total expenditures	988,488	1,006,491	846,287	160,204
Deficiency of revenues Over expenditures	(382,135)	(400,138)	(139,809)	(260,329)
Other financing sources, net	99,442	99,442	154,343	(54,901)
Excess (Deficiency) of revenues And net other financing sources Over expenditures	$ (282,693)	$ (300,696)	$ 14,534	$ (315,230)

For fiscal 2014, the general fund realized a favorable budgetary variance of $315 million mainly due to increases in the taxes revenue and implementation of strict budgetary measures. The general fund realized a positive revenue variance of $100 million due to an increase in tax revenues. The general fund realized a favorable expenditure variance of $160 million due to decreases in expenditures from budgeted amounts.

Capital Assets

Capital assets additions during fiscal 2014 amounted to $54.2 million for governmental activities and $39 million for business-type activities.

Capital assets additions during fiscal 2013 amounted to $71.3 million for governmental activities and $38 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:

	Governmental Activities		Business-Type Activities		Total	
September 30,	2014	2013	2014	2013	2014	2013
		(As restated)		*(As restated)*		*(As restated)*
Land and improvements	$ 203,897	$ 200,763	$ 5,526	$ 5,495	$ 209,423	$ 206,258
Building and improvements	464,408	460,115	77,109	67,955	541,517	528,070
Machinery and equipment	175,094	161,974	57,060	14,181	232,154	176,155
Infrastructure	253,843	252,794	-	-	253,843	252,794
Construction in progress	166,673	134,039	21,218	47,435	187,891	181,474
Intangible	-	-	20,929	8,117	20,929	8,117
Total capital assets	1,263,915	1,209,685	181,842	143,183	1,445,757	1,352,868
Less accumulated depreciation	(442,882)	(409,451)	(46,570)	(40,702)	(489,452)	(450,153)
Total capital assets, net	$ 821,033	$ 800,234	$ 135,272	$ 102,481	$ 956,305	$ 902,715

Note 9 provides detailed information regarding the capital assets of the primary government and the component units of the Government.

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, 2014:

Bond Payable	**Maturity**	**Rates (%)**	**Balance**
2014 Series A Revenue Bonds	2035	5.00	$ 49,640
2013 Series B Revenue Refunding Bonds	2024	3.00 – 5.00	51,365
2013 Series A Revenue Refunding Bonds	2024	5.00 – 5.25	36,000
2012 Series C Revenue Bonds	2042	3.00 – 5.00	35,115
2012 Series A & B Revenue & Refunding Bonds	2032	2.25 – 5.25	218,345
2012 Series A Revenue Bonds	2032	4.00 – 5.00	142,640
2010 Series A & B Revenue Bonds	2029	4.00 – 5.25	394,995
2009 Series A Revenue Bonds (Cruzan)	2039	3.00 – 6.00	36,885
2009 Series A-1, B & C Revenue and Refunding Bonds	2039	3.00 – 5.00	371,230
2009 Series A Revenue Bonds (Diageo)	2037	6.00 – 6.75	245,960
2006 Series A Revenue Bonds	2029	3 50 – 5.00	205,970
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.00 – 8.00	7,290
2004 Series A Revenue Bonds	2024	4.00 – 5.25	4,405
2003 Series A Revenue Bonds	2033	4.00 – 5.25	237,500
2001 Series A Tobacco Bonds	2031	4.62 – 5.13	11,020
Total bonds outstanding			2,048,360
Plus (less):			
Bonds premium			52,631
Bonds discount			(3,356)
Bonds accretion			5,206
Net bonds outstanding			$ 2,102,841

Note 10 provides detailed information regarding all bonds of the PG.

In fiscal year 2014 the Government issued the 1) 2014 Series A (Working Capital) Revenue Bonds in the amount of $49.6 million, and 2) the 2013 Series B Revenue Refunding Bonds, in the amount of $51.3 million, for the refunding of a portion of the 2004 series A Bonds. During fiscal year 2014, the Government also borrowed $11.1 million from the U.S. Treasury to fund deficits in the Virgin Islands Unemployment Trust Fund.

In fiscal year 2013, the Government issued the 1) 2013A Revenue Refunding Bonds in the amount of $36 million, to partially refund certain bond issuances, 2) the 2012A and B Revenue and Refunding Bonds in the amount of $228.8 million to 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 million, to provide working capital and to pay certain operating expenses. During fiscal year 2013, the Government also borrowed $38 million from the U.S. Treasury to fund deficits in the Virgin Islands Unemployment Trust Fund.

The PG made bond principal payments on outstanding general and special revenue bonds amounting to $90 million during fiscal year 2014, and $350 million during fiscal year 2013.

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.

Other Liabilities of the Primary Government

September 30,	2014	2013 *(As restated)*
Accrued compensated absences	$ 38	$ 51
Retroactive union arbitration	195	195
Litigation	11	13
Post-employment benefits	319	285
Landfill closure and post closure costs	95	96
Worker's compensation	27	24
Total other liabilities	$ 685	$ 664

Economic Condition and Outlook

The PG continues its recovery efforts from the economic recession of 2008 through a combination of revenue initiatives and budgetary restraint on 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 and 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.

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, 2014 and 2013, unpaid retroactive salary increase liabilities amounted to $195.3 million, for both years, which were reported as a liability of the Government within other noncurrent liabilities.

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 $319 billion as of September 30, 2014. 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.

Deficit Reduction Measures

In fiscal year 2014, the PG reported an unrestricted net deficit of $2 billion. In fiscal year 2013, the PG reported an unrestricted net deficit of $2.1 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

Statement of Net Position

(in thousands)

September 30, 2014	Primary Government Governmental Activities	Primary Government Business-type Activities	Primary Government Total	Component Units
Assets				
Cash and cash equivalents	$ 135,412	$ 14,893	$ 150,305	$ 84,993
Investments	448,544	1,879	450,423	12,174
Receivables, net	284,688	5,315	290,003	54,516
Internal balances	38,968	(38,968)	–	–
Due from federal government	61,846	1,977	63,823	5,111
Due from component units	3,729	–	3,729	–
Notes and other receivables	–	–	–	3,483
Due from primary government	–	–	–	61,990
Inventories	–	–	–	31,612
Other assets	5,059	1,003	6,062	16,722
Restricted:				
Cash and cash equivalents	–	9,973	9,973	49,779
Investments	–	–	–	90,744
Other	–	–	–	27,155
Capital assets, net	821,033	135,271	956,304	1,016,048
Prepaids and other assets	–	–	–	63,680
Total assets	1,799,279	131,343	1,930,622	1,518,007
Deferred Outflow of Resources				
Deferred cost of bond refunding	9,880	–	9,880	5,564
Total deferred outflow of resources	9,880	–	9,880	5,564
Total assets and deferred outflow of resources	$ 1,809,159	$ 131,343	$ 1,940,502	$ 1,523,571

See accompanying notes to financial statements.

Statement of Net Position

(in thousands)

September 30, 2014	Primary Government Governmental Activities	Business-type Activities	Total	Component Units
Liabilities				
Accounts payable and accrued liabilities	$ 109,909	$ 11,045	$ 120,954	$ 216,354
Tax refunds payable	89,329	–	89,329	–
Unemployment insurance benefits	–	8,148	8,148	–
Customer deposits	–	–	–	26,621
Due to primary government	–	–	–	3,729
Due to component units	35,041	–	35,041	–
Due to federal government	779	–	779	4,151
Interest payable	50,968	–	50,968	6,810
Unearned revenues	165,249	586	165,835	14,870
Other current liabilities	–	–	–	18,954
Noncurrent liabilities:				
Due within one year:				
Notes payable	4,803	77,400	82,203	5,145
Bonds payable	67,033	–	67,033	16,066
Other liabilities	4,964	1,921	6,885	2,893
Due in more than one year:				
Line of credit payable	–	–		28,378
Notes payable	34,561	28,066	62,627	62,174
Bonds payable	2,035,808	–	2,035,808	275,801
Other liabilities	653,703	25,210	678,913	75,857
Total liabilities	$ 3,252,147	$ 152,376	$ 3,404,523	$ 757,803
Net Position:				
Net investment in capital assets	$ 247,208	$ 106,753	$ 353,961	$ 760,929
Restricted:				
Unemployment insurance	–	7,261	7,261	–
Debt service	244,120	–	244,120	–
Capital projects	286	–	286	–
Federal projects	57	–	57	–
Other purposes	–	2,712	2,712	173,308
Unrestricted (deficit)	(1,934,659)	(137,759)	(2,072,418)	(168,469)
Total net position (deficit)	$ (1,442,988)	$ (21,033)	$ (1,464,021)	$ 765,768

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Activities

(in thousands)

		Program Revenues			Net Revenue (Expense) and Changes in Net Position			
					Primary Government			
Year Ended September 30, 2014	***Expenses***	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
Functions:								
Primary government:								
Governmental activities:								
General government	$ 588,291	$ 14,772	$ 113,995	$ 3,634	$ (455,890)	$ –	$ (455,890)	$ –
Public safety	63,933	372	3,617	–	(59,944)	–	(59,944)	–
Health	44,049	504	18,187	–	(25,358)	–	(25,358)	–
Public housing and welfare	173,897	286	107,899	–	(65,712)	–	(65,712)	–
Education	231,774	386	15,747	–	(215,641)	–	(215,641)	–
Transportation and communication	51,899	491	9,203	21,019	(21,186)	–	(21,186)	–
Culture and recreation	7,948	776	–	–	(7,172)	–	(7,172)	–
Interest on long-term debt	109,859	–	–	–	(109,859)	–	(109,859)	–
Total governmental activities	1,271,650	17,587	268,648	24,653	(960,762)	–	(960,762)	–
Business-type activities:								
West Indian Company	10,963	9,507	–	–	–	(1,456)	(1,456)	–
Unemployment Insurance	20,997	9,308	5,167	–	–	(6,522)	(6,522)	–
Workers compensation	10,205	6,484	–	–	–	(3,721)	(3,721)	–
Virgin Islands Lottery	17,779	17,757	–	–	–	(22)	(22)	–
Other	18,266	7,029	107	19,898	–	8,768	8,768	–
Total business-type activities	78,210	50,085	5,274	19,898	–	(2,953)	(2,953)	–
Total primary government	$ 1,349,860	$ 67,672	$ 273,922	$ 44,551	$ (960,762)	$ (2,953)	$ (963,715)	$ –
Component units:								
Virgin Islands Housing Authority	$ 48,095	$ 7,233	$ 35,183	$ 6,056	$ –	$ –	$ –	$ 377
Virgin Islands Port Authority	67,121	51,381	–	12,103	–	–	–	(3,637)
Virgin Islands Water and Power Authority:								
Electric System	326,816	321,216	–	11,521	–	–	–	5,921
Water System	40,053	31,502	–	3,007	–	–	–	(5,544)
Virgin Islands Government Hospital and Health Facilities Corporation:								
Roy L. Schneider Hospital	85,821	49,090	35,346	170	–	–	–	(1,215)
Juan F. Luis Hospital	74,263	33,566	60	36,492	–	–	–	(4,145)
University of the Virgin Islands	81,593	49,519	18,688	5,292	–	–	–	(8,094)
Other component units	81,941	16,219	52,203	7,684	–	–	–	(5,639)
Total component units	$ 805,703	$ 559,726	$ 141,480	$ 82,325	$ –	$ –	$ –	$ (21,976)
Total primary government and component units					$ (960,762)	$ (2,953)	$ (963,715)	$ (21,976)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Activities

(in thousands)

Year Ended September 30, 2014	Net Revenue (Expense) and Changes in Net Position – Primary Government – Governmental Activities	Business-type Activities	Total	Component Units
General revenues:				
Taxes	$ 963,861	$ -	$ 963,861	$ -
Interest and other	40,964	17,489	58,453	17,177
Tobacco settlement rights	2,318	–	2,318	–
Transfers – internal activities of primary government	(5,300)	5,300	–	–
Total general revenue	1,001,843	22,789	1,024,632	17,177
Changes in net position	41,081	19,836	60,917	(4,799)
Net position (deficit), beginning of year, as restated	(1,484,069)	(40,869)	(1,524,938)	770,567
Net position (deficit), end of year	$ (1,442,988)	$ (21,033)	$ (1,464,021)	$ 765,768

See accompanying notes to financial statements.

Balance Sheet - Governmental Funds

(in thousands)

September 30, 2014	General	PFA Debt Service	PFA Capital Projects	Federal Grants	Other Governmental	Total Governmental
Assets						
Cash and cash equivalents	$ 40,051	$ 12,252	$ 20,756	$ –	$ 62,353	$ 135,412
Investments	79,753	325,776	37,888	-	5,127	448,544
Receivables:						
Taxes, net	235,234	47,650	–	-	–	282,884
Other	10	–	–	-	115	125
Due from federal government	-	-	-	61,816	30	61,846
Due from:						
Other funds	23,100	–	32,046	-	20,588	75,734
Component units, net	3,729	–	–	-	–	3,729
Total assets	$ 381,877	$ 385,678	$ 90,690	$ 61,816	$ 88,213	$ 1,008,274
Liabilities						
Accounts payable and accrued liabilities	$ 86,882	$ 171	$ 678	$ 4,785	$ 17,393	$ 109,909
Tax refunds payable	89,329	–	–	–	–	89,329
Due to federal government	–	–	–	–	779	779
Unearned revenue	60,120	101,629	–	–	3,500	165,249
Due to:						
Other funds	19,266	–	–	-	17,500	36,766
Component units	35,037	–	–	-	4	35,041
Total liabilities	290,634	101,800	678	4,785	39,176	437,073
Deferred Inflow of Resources						
Unavailable revenues	178,911	37,221	–	–	–	216,132
Deferred inflow of resources	469,545	139,021	678	4,785	39,176	653,205
Fund balances:						
Restricted	–	246,657	90,012	57,031	–	393,700
Committed	12,126	–	–	–	24,120	36,246
Assigned	–	–	–	–	24,917	24,917
Unassigned	(99,794)	–	–	–	–	(99,794)
Total fund (deficit) balances	(87,668)	246,657	90,012	57,031	49,037	355,069
Total liabilities deferred inflow resources and fund balances	$ 381,877	$ 385,678	$ 90,690	$ 61,816	$ 88,213	
Amounts reported for governmental activities in the statement of net position are different because:						
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.						821,033
Expenditures identified as related to a future period recognized as a prepaid asset in the statement of net position.						5,059
Deferred costs of refunding bonds are not financial resources, and are therefore not reported in the funds.						9,880
Other long-term assets, primarily taxes receivable, will not be available to pay for current period expenditures and, therefore, are deferred in the funds.						217,811
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.						(50,968)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.						(2,800,872)
Net position (deficit) of governmental activities						$ (1,442,988)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

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

(in thousands)

Year Ended September 30, 2014	General	PFA Debt Service	PFA Capital Projects	Federal Grants	Other Governmental	Total Governmental
Revenues:						
Taxes	$ 664,170	$ 233,004	$ 3,118	$ –	$ 16,703	$ 916,995
Federal grants and contributions	13,780	–	–	259,697	19,824	293,301
Charges for services	8,308	–	–	–	9,279	17,587
Tobacco settlement rights	–	–	–	–	2,239	2,239
Interest and other	20,220	3,253	14	–	17,477	40,964
Total revenues	706,478	236,257	3,132	259,697	65,522	1,271,086
Expenditures:						
Current:						
General government	483,923	153	6,143	26,758	32,528	549,505
Public safety	58,100	–	–	2,604	1,076	61,780
Health	32,209	–	–	9,693	1,038	42,940
Public housing and welfare	62,203	–	–	108,351	2,144	172,698
Education	183,069	–	–	38,453	3,508	225,030
Transportation and communication	19,440	–	–	6,591	15,822	41,853
Culture and recreation	7,343	–	–	–	64	7,407
Capital outlays	12,189	–	12,601	20,142	18,873	63,805
Debt service:						
Principal	41,106	44,611	2,615	–	1,625	89,957
Interest	2,125	107,012	198	–	632	109,967
Bond issuance costs	2,094	1,108	–	–	–	(3,202)
Total expenditures	903,801	152,884	21,557	212,592	77,310	1,361,740
Excess (deficiency) of revenue over expenditures	(197,323)	83,373	(18,425)	47,105	(11,788)	(97,058)
Other financing sources (uses):						
Bonds issued	46,873	2,767	–	–	–	49,640
Refunding bonds issued	–	51,365	–	–	–	51,365
Payment to refunded bond escrow agent	–	(50,862)	–	–	–	(50,862)
Loans issued	54,000	–	2,770	–	–	56,770
Bond premiums	4,793	2,934	–	–	–	7,727
Transfers from other funds	106,139	146	–	–	3,743	110,028
Transfers to other funds	(9,438)	(104,790)	(1,100)	–	–	(115,328)
Total other financing sources (uses), net	202,367	(98,440)	1,670	–	3,743	109,340
Net change in fund balances	5,044	(15,067)	(16,755)	47,105	(8,045)	12,282
Fund (deficit) balance, beginning of year, as restated	(92,712)	261,724	106,767	9,926	57,082	342,787
Fund (deficit) balance, end of year	$ (87,668)	$ 246,657	$ 90,012	$ 57,031	$ 49,037	$ 355,069

See accompanying notes to financial statements.

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

(in thousands)

Year Ended September 30,	2014
Net change in fund balances – total governmental funds	$ 12,282
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.	20,799
Tax revenue in the statement of activities, which do not provide current financial resources, are not reported as revenue in the funds.	46,945
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 repayments of $158.1 million exceeds the loan and bond proceeds of $157.7 million.	(16,957)
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 position of the previous year decreased expenses reported in the statement of activities that do not require the use of current financial resources.	(18,261)
Some expenses reported as prepaid assets in the statement of net position in the current year are recognized as expenses in the following year in the statement of activities.	(444)
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 of Bond refunding, and accreted interest on capital appreciation bonds during the current year.	(4,246)
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 decrease in interest payable reported in the statement of net assets.	963
Change in net position of governmental activities	$ 41,081

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Net Position – Proprietary Funds

(in thousands)

September 30, 2014	Business-type Activities – Enterprise Funds West Indian Company	Unemployment Insurance	Other Enterprise	Totals
Assets				
Current assets:				
Cash and cash equivalents	$ 1,299	$ 1,076	$ 12,518	$ 14,893
Investments at fair value	–	–	1,879	1,879
Receivables, net:				
Premiums receivable	–	2,617	–	2,617
Other receivables	1,558	–	3,117	4,675
Due from:				
Other funds	–	–	739	739
Other assets	686	–	317	1,003
Total current assets	3,543	3,693	18,570	25,806
Noncurrent assets:				
Restricted cash and cash equivalents	2,712	7,261	–	9,973
Capital assets	44,275	–	90,996	135,271
Total noncurrent assets	46,987	7,261	90,996	145,244
Total assets	$ 50,530	$ 10,954	$ 109,566	$ 171,050
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	$ 667	$ -	$ 10,378	$ 11,045
Due to other funds	5,400	–	34,307	39,707
Unemployment insurance benefits	–	8,148	–	8,148
Workers compensation	–	–	1,921	1,921
Unearned revenue	–	–	586	586
Loans payable related to capital assets	452	–	–	452
Total current liabilities	6,519	8,148	47,192	61,859
Noncurrent liabilities:				
Workers compensation	–	–	25,210	25,210
Loan payable to U.S. Treasury	–	76,948	–	76,948
Loans payable related to capital assets	28,066	–	–	28,066
Total noncurrent liabilities	28,066	76,948	25,210	130,224
Total liabilities	$ 34,585	$ 85,096	$ 72,402	$ 192,083
Net Position				
Net investment in capital assets	$ 15,757	$ -	$ 90,996	$ 106,753
Restricted	2,712	7,261	–	9,973
Unrestricted (deficit)	(2,524)	(81,403)	(53,832)	(137,759)
Total net position (deficit)	$ 15,945	$ (74,142)	$ 37,164	$ (21,033)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

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

(in thousands)

	Business-type Activities – Enterprise Funds			
Year Ended September 30, 2014	**West Indian Company**	**Unemployment Insurance**	**Other Enterprise**	**Totals**
Operating revenues:				
Charges for services	$ 9,507	$ 9,308	$ 31,270	$ 50,085
Operating expenses:				
Cost of services	6,853	19,018	42,373	68,244
Amortization	–	–	2,389	2,389
Depreciation	2,007	–	1,488	3,495
Total operating expenses	8,860	19,018	46,250	74,128
Operating income (loss)	647	(9,710)	(14,980)	(24,043)
Non-operating revenues (expenses):				
Federal grants	–	5,167	20,005	25,172
Interest and other income	910	268	16,311	17,489
Interest expense	(2,103)	(1,979)	–	(4,082)
Total non-operating revenues (expenses), net	(1,193)	3,456	36,316	38,579
(Loss) income before operating transfers	(546)	(6,254)	21,336	14,536
Transfers from other funds	–	–	6,000	6,000
Transfers to other funds	(700)	–	–	(700)
Change in net position	(1,246)	(6,254)	27,336	19,836
Net position (deficit), beginning of year, as restated	17,191	(67,888)	9,828	(40,869)
Net position (deficit), end of year	$ 15,945	$ (74,142)	$ 37,164	$ (21,033)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Cash Flows – Proprietary Funds

(in thousands)

Year Ended September 30, 2014	Business-type Activities – Enterprise Funds West Indian Company	Unemployment Insurance	Other Enterprise	Totals
Cash flows from operating activities				
Receipts from customers and users	$ 8,821	$ 13,829	$ 34,557	$ 57,207
Payments to beneficiaries, suppliers and employees	(8,319)	(20,526)	(37,250)	(66,095)
Net cash provided by (used in) operating activities	502	(6,697)	(2,693)	(8,888)
Cash flows from noncapital financing activities				
Other income	904	–	16,303	17,207
Transfer in (out) to other fund	(700)	–	6,000	5,300
Federal grants	–	5,167	20,005	25,172
Net cash provided by noncapital financing activities	204	5,167	42,308	47,679
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(5,846)	–	(35,224)	(41,070)
Disposal of capital assets	–	–	2,395	2,395
Issuance of debt	7,323	11,100	–	18,423
Principal paid on debt issuances	(45)	(10,558)	–	(10,603)
Interest paid on debt issuances	(2,103)	(1,979)	–	(4,082)
Net cash used in capital and related financing activities	(671)	(1,437)	(32,829)	(34,937)
Cash flows from investing activities				
Interest on investments	6	268	8	282
Sale (purchase) of investments	–	–	(360)	(360)
Net cash provided by (used in) investing activities	6	268	(352)	(78)
Net increase (decrease) in cash and cash equivalents	41	(2,699)	6,434	3,776
Cash and cash equivalents, beginning of year	3,970	11,036	6,084	21,090
Cash and cash equivalents, end of year	$ 4,011	$ 8,337	$ 12,518	$ 24,866
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ 647	$ (9,710)	$ (14,980)	$ (24,043)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	2,007	–	3,877	5,884
Change in assets and liabilities:				
Receivables, net	(686)	–	(206)	(892)
Due from federal government	–	4,521	4,299	8,820
Deferred revenue	–	–	(806)	(806)
Other assets	(61)	–	196	135
Accounts payable and accrued liabilities	(2,105)	(1,337)	697	(2,745)
Unemployment insurance benefits	–	(171)	–	(171)
Workers compensation	–	–	3,340	3,340
Due to other funds	700	–	890	1,590
Net cash provided by (used in) operating activities	$ 502	$ (6,697)	$ (2,693)	$ (8,888)
Reconciliation of cash and cash equivalents to the statement of net assets				
Cash and cash equivalents – current	$ 1,299	$ 1,076	$ 12,518	$ 14,893
Cash and cash equivalents – restricted	2,712	7,261	–	9,973
Total cash and cash equivalents, end of year	$ 4,011	$ 8,337	$ 12,518	$ 24,866

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Fiduciary Net Position - Fiduciary Funds

(in thousands)

September 30, 2014	**Pension Trust Fund**	**Agency Funds**
Assets		
Cash and cash equivalents:		
Unrestricted	$ 66,179	$ 2,041
Restricted	5	–
Investments:		
Certificate of deposits	–	3,989
Cash collateral received under securities lending transactions	33,485	–
U.S. Government and agency obligations	60,755	–
Corporate obligations	31,144	–
Foreign bonds an government obligations	5,484	–
Common stock - U.S.	151,663	–
Mortgage and asset backed securities	30,970	–
Mutual funds	487,821	–
Investment loans	25,552	–
Real estate investment trust	3,410	–
Limited partnerships	53,908	–
Real estate	71,219	–
Receivables, net:		
Loans and advances	157,112	–
Accrued interest	2,422	–
Other	244	–
Other assets	13,898	–
Total assets	1,195,271	6,030
Liabilities		
Accounts payable and accrued liabilities	–	6,030
Benefits in process of payment	4,022	–
Unsettled securities purchased	3,996	–
Securities lending collateral	33,485	–
Other liabilities	10,877	–
Total liabilities	52,380	6,030
Net position restricted for pension benefits	$ 1,142,891	$ –

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Changes in Fiduciary Net Position - Fiduciary Funds

(in thousands)

Year Ended September 30, 2014	**Pension Trust Fund**
Additions:	
Contributions:	
Employer	$ 68,298
Plan members	34,020
Total contributions	102,318
Investment income:	
Net appreciation of fair value of investments	37,046
Interest, dividends, and other, net	26,994
Real estate – net rental loss	(754)
Total investment income	63,286
Less investment expense	2,959
	60,327
Other income	3,574
Total additions	166,219
Deductions:	
Benefits paid	239,713
Refunds of contributions	7,356
Administrative and operational expenses	18,868
Total deductions	265,937
Change in net position	(99,718)
Net position restricted for pension benefits, beginning of year, as restated	1,242,609
Net position restricted for pennsion benefits, end of year	$ 1,142,891

See accompanying notes to financial statements.

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 accounting principles generally accepted in the United States of America (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 GAAP. 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.

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 or any governmental instrumentality. 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 and King's Alley Management, Inc. as other governmental fund in the Government's basic financial statements.

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, Government Hill
St. Thomas, VI 00802

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

(b) Discretely Presented Component Units

The following component units, as required by GAAP 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.

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 the 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.

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 are nominated by the Virgin Islands Legislature.

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.

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.

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.

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.

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

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

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, 2014, except for WAPA and VIHA that have a year-end of June 30, 2014 and December 31, 2013, 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, single-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.

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.

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 in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. Revenues are 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 as soon as 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 when it is both measurable and available. Revenues are considered to be available when they become susceptible to accrual and are collected 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.

(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. 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. GAAP, 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:

(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.

- Federal Grants Fund - The federal grants fund accounts for proceeds and payments that are restricted to expenditures for specified purposes.

(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.

(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 GAAP which 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.

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, 2014, 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 at September 30, 2014.

- *PFA Investment Policies* – 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. TSFC has retained investment managers and investments are held in trust by a commercial bank on behalf of the TSFC. Investments are reported at fair value in the non-major governmental fund of the Government.

- *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.

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, 2014, 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 $8.2 million, was $24.8 million at September 30, 2014.

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, 2014, the outstanding balance of the credit facility was $10.3 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 accrue 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.

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, 2014, the complex had an appraised value of $2.1 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, 2014, the outstanding principal balance on the loan is $6 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 $41 million.

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 million as of September 30, 2014.

- *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, obligations of the United States government, and obligations of any state within the United States, mutual funds, and corporate commercial paper. Investments are reported at fair value.

- *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 University's component unit Foundation for the University of the Virgin Islands, issued an investment policy in February 2013. 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, 2014, 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, 2014.

- *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.

Receivables

Taxes receivable represent amounts owed by taxpayers for individual and corporate income taxes, gross receipts taxes and real property taxes.

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 V.I. Code, 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 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, at 5% interest rate to purchase land.

Members who have contributed to GERS for at least five years can borrow up to $18,000 for the purchase of an automobile. The interest rate offered on auto loans changes periodically, but is never below 8%, 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 could qualify for personal loans up to $50,000 at the same interest rate as active members; and, effective March 25, 2014 retirees were allowed to refinance their loans regardless of the outstanding balance. All loans have a mandatory credit life insurance.

Member loans in GERS are valued at the outstanding loan principal balance less an allowance for estimated loan losses.

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, 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.

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 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.

Deferred Outflow/Inflow of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *deferred outflow of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, *deferred inflow of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category.

Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and income taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

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, and losses incurred on bond refundings are deferred and amortized over the life of the bonds using straight line method. Bonds payable are reported net of the applicable bond premiums or discounts. Issuance costs are reported as expenses.

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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

GAAP 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 first when expenditures are incurred for which both restricted and unassigned 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.

- *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:

- *Net Investment in Capital Assets* – This 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 are not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is presented, net of the related debt, as restricted for capital projects.

- *Restricted Net Position* – These result when 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* – These consist of assets (deficit) which do 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.

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.

Adoption of Accounting Pronouncements

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

GASB Statement Number		Adoption Required in Fiscal Year
65	Items Previously Reported as Assets and Liabilities	2014
67	Financial Reporting for Pension Plans – an amendment of Statement No. 25	2014
70	Accounting and Financial Reporting for Nonexchange Financial Guarantees	2014

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

GASB Statement Number		Adoption Required in Fiscal Year
68	Accounting and Financial Reporting for Pensions	2015
69	Government Combinations and Disposals of Government Operations	2015
71	Pension Transition for Contributions Made Subsequent to the Measurement Date	2015
72	Fair Value Measurement and Application	2016
73	Accounting and Financial Reporting for Pension and Related Assets That are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68	2017
74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	2017
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	2018
76	The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments	2016
77	Tax Abatement Disclosures	2017

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

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

Condensed financial information as of September 30, 2014, of all discretely presented component units follows (expressed in thousands):

			Virgin Islands Water and Power Authority		Hospital and Health Facilities Corporation				
	Virgin Islands Housing Authority	Virgin Islands Port Authority	Electric System	Water System	Roy L. Schneider Hospital	June F. Luis Hospital	University of the Virgin Islands	Other Component Units	Total Component Units
Assets and deferred outflow									
Current assets	$ 24,637	$ 28,491	$ 62,091	$ 9,447	$ 15,445	$ 16,444	$ 29,340	$ 17,604	$ 203,499
Due from primary government	-	-	41,189	5,695	5,023	-	622	9,461	61,990
Due from federal government	280	2,540	-	–	–	-	1,955	336	5,111
Restricted assets	1,524	10,787	57,622	8,808	436	179	40,256	48,066	167,678
Capital assets, net	70,270	239,866	312,353	66,384	50,507	35,891	69,543	171,234	1,016,048
Other noncurrent assets	1,564	475	29,464	-	158	-	270	31,750	63,681
Deferred outflow of resources	-	-	-	-	–	-	5,564	-	5,564
Total assets and deferred outflow of resources	98,275	282,159	502,719	90,334	71,569	52,514	147,550	278,451	1,523,571
Liabilities									
Current liabilities	2,528	17,734	137,065	4,178	27,660	61,051	4,252	14,270	268,738
Due to primary government	-	-	-	–	3,729	-	–	–	3,729
Due from federal government	9	-	4,142	–	-	-	–	–	4,151
Bonds payable	-	26,097	252,276	13,494	–	-	–	–	291,867
Notes payable	1,555	-	5,874	–	–	-	55,821	4,070	67,320
Line of credit payable	-	-	25,128	2,500	750	-	–	–	28,378
Other noncurrent liabilities	12,166	1,725	42,290	8,022	–	37	4,776	9,735	78,751
Unearned income	105	-	-	–	–	–	3,913	10,851	14,869
Total liabilities	16,363	45,556	466,775	28,194	32,139	61,088	68,762	38,926	757,803
Net position (deficit):									
Net investment in capital assets	65,955	210,394	171,951	54,997	50,507	35,854	13,772	157,499	760,929
Restricted	1,327	10,786	47,544	7,971	437	178	46,121	58,944	173,308
Unrestricted (deficit)	14,630	15,423	(183,551)	(828)	(11,514)	(44,606)	18,895	23,082	(168,469)
Total net position (deficit)	$ 81,912	$ 236,603	$ 35,944	$ 62,140	$ 39,430	$ (8,574)	$ 78,788	$ 239,525	$ 765,768

Information on Statements of Activities	Expenses	Program revenue: Charges for Services	Program revenue: Operating Grants and Contributions	Program revenue: Capital Grants and Contributions	Total Component Units
Virgin Islands Housing Authority	$ 48,095	$ 7,233	$ 35,183	$ 6,056	$ 377
Virgin Islands Port Authority	67,121	51,381	–	12,103	(3,637)
Virgin Islands Water and Power Authority:					
Electric System	326,816	321,216	–	11,521	5,921
Water System	40,053	31,502	–	3,007	(5,544)
Virgin Islands Government Hospital and Health Facilities Corporation:					
Roy L. Schneider Hospital	85,821	49,090	35,346	170	(1,215)
Juan F. Luis Hospital	74,263	33,566	60	36,492	(4,145)
University of the Virgin Islands	81,593	49,519	18,688	5,292	(8,094)
Other component units	81,941	16,219	52,203	7,684	(5,639)
Total activities	$ 805,703	$ 559,726	$ 141,480	$ 82,325	(21,976)
General revenue:					
Interest and other					17,177
Changes in net position					(4,799)
Net position, beginning of year (as restated)					750,567
Net position, end of year					$ 765,768

The due to component units of 35 million and due from component units of 3.7 million differ due to the difference in fiscal year ends for WAPA (June 30) and VIHA (December 31).

3. Cash and Cash Equivalents

Primary Government

At September 30, 2014, the PG reported $150.3 million in unrestricted cash and cash equivalents, and $9.9 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, 2014, GERS held $66.2 million in cash and cash equivalents consisting of: $26.7 million in money market accounts, $24.7 million in operational accounts and $14.8 million in certificates of deposits with maturity time less than 90 days.

Component Units

At September 30, 2014, discrete component units held $85 million in unrestricted cash and cash equivalents and $50 million in restricted cash and cash equivalents, of which $3 million was not insured, bonded or collateralized as required for public funds of the Government.

4. Investments

Primary Government Investments

Following is a summary of the investments of the PG, categorized by investment type and maturity as of September 30, 2014 (expressed in thousands):

		Maturity (in years)		
	Fair Value	Less Than 1 Year	1 to 5 Years	Over 5 Years
Investments with contractual maturities				
Certificates of deposit	$ 1,890	$ 1,890	$ -	$ -
Portfolio investments				
Commercial Paper	39,430	39,149	281	-
U.S. Government agencies & notes	18,474	18,474	-	-
Total investments with contractual maturities	59,794	$ 59,513	$ 281	$ -
Investments without contractual maturities				
Money market & mutual funds	390,629			
Total Primary Government Investments	$ 450,423			

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, 2014, 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-1+ by Standard & Poor's, and P-1 by Moody's Investor Services. The PG's investment in U.S. government agencies were rated A-1 by Standard & Poor's and P-1 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, 2014, more than 5% of the PG's investments were invested in: Goldman Financial Square Money Market #524 (56.5%), Federated Government Obligation #5 (13.9%), Chesham FNC/Chesh LLC, CPDS (8.7%), Invesco Treasury #1930 (8.3%), and Goldman Financial Securities Money Market #474 (5.9%).

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, 2014, $448.5 million of investments were held in the name of The Bank of New York Trust Company, N.A, as trustee for the Government.

Pension Trust Fund Investments

Following is a summary of pension trust fund investments as of September 30, 2014 (expressed in thousands):

		Maturity (in years)				
	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years	No Stated Maturity
Investments with contractual maturities						
U.S. government and agency obligations	$ 4,887	$ 706	$ 1,701	$ 2,480	$ –	$ –
U.S. Treasury notes	48,860	–	47,084	1,776	–	–
U.S. Treasury bonds	2,582	–	–	–	2,582	–
Municipals	4,427	–	884	238	3,305	–
Mutual funds	487,821	–	–	–	–	487,821
Corporate obligations	31,144	403	14,381	7,618	8,742	–
Foreign bonds and government obligations	5,484	–	4,214	239	1,031	–
Mortgage and asset backed securities	30,970	–	3,008	1,850	26,112	–
Investment loan	25,552	–	17,967	7,585	–	–
Total investments with contractual maturities	641,727	$ 1,109	$ 89,239	$ 21,786	$ 41,772	$ 487,821
Investments without contractual maturities						
Equity Securities						
Common stocks - U.S.	151,664					
Real Estate Investments						
Real estate investment trusts	3,410					
Havensight Mall - U.S. Virgin Islands	41,000					
Renaissance Carambola Beach Resort	2,100					
GERS Complex - U.S. Virgin Islands	28,119					
Limited partnerships	53,908					
Securities lending short-term collateral investment pool	33,483					
Total pension fund investments	$ 955,411					

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.

The credit ratings of GERS debt and equity securities at September 30, 2014 (expressed in thousands) include:

U.S. government and agency obligations	$ 3,763	AA+
U.S. government and agency obligations	706	AA
U.S. government and agency obligations	418	AA-
U.S. Treasury notes	48,860	AA+
U.S. Treasury bonds	2,582	AA+
Corporate obligations	15,800	A- to AAA
Corporate obligations	14,660	BBB- to BBB
Corporate obligations	684	Not Rated
Foreign bonds and government obligations	1,204	AAA to A-
Foreign bonds and government obligations	1,844	BBB
Foreign bonds and government obligations	2,436	Not Rated
Municipals	3,032	A- to AAA
Municipals	1,395	B- to BB+
Mortgage and asset backed securities	28,356	A- to AAA
Mortgage and asset backed securities	218	B- to BBB-
Mortgage and asset backed securities	781	D to CCC
Mortgage and asset backed securities	1,615	Not Rated
Common stocks - U.S.	151,663	Not Rated
Real estate investment trust	3,410	Not Rated
Real estate holdings – U.S. Virgin Islands	71,119	Not Rated
Investment loans	25,552	Not Rated
Limited partnership	53,908	Not Rated
Securities lending short-term collateral investment pool	33,484	Not Rated
Mutual funds	487,921	Not Rated
Total investments	$ 955,411	

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 $1.4 million, the entire investment portfolio of GERS was held with a single third-party custodian as of September 30, 2014. 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, 2014, $5.5 million of GERS' portfolio was held in foreign cash equivalents and investments, with $3 million held in Euro currency, $1.7 million held in Australian dollars, $736 thousand held in pound sterling, and $784 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, 2014, GERS reported $5.5 million in forward currency purchases, $5.7 million in forward currency sales, and a foreign exchange gain of $239 thousand.

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 2014 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 2014, 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, 2014, approximately $34.5 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, 2014, such investment pool had a weighted average maturity of 42 days and an average expected maturity of 178 days. Because the loans were terminable on demand, their duration did not generally match the duration of the investments made with cash collateral.

Component Unit Investments

Following is a summary of component unit investments and maturities as of September 30, 2014 (expressed in thousands):

	Fair Value	Maturity (in years) Less Than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years
Investments with contractual maturities					
Certificates of deposit	$ 10,375	$ 10,189	$ 186	$ –	$ –
Corporate bonds	4,255	143	263	–	3,849
U.S. Government agencies and notes	43,949	39,261	4,688	–	–
Total investments with contractual maturities	58,579	$ 49,593	$ 5,137	$ –	$ 3,849
Investments without contractual maturities					
Common stock	8,743				
Mutual funds	2,298				
Other investments	33,298				
Total component unit investments	$ 102,918				

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, 2014, the University of the Virgin Islands' investments includes corporate bonds with ratings of AA to A- 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.

5. Receivables

Primary Government Receivables

Receivables for governmental funds at September 30, 2014, consist of the following (expressed in thousands):

	General	PFA Debt Services	Other Governmental	Total
Income taxes	$ 278,030	$ –	$ –	$ 278,030
Real property taxes	187,687	–	–	187,687
Hotel occupancy taxes	2,724	–	–	2,724
Excise taxes	960	–	–	960
Gross receipts taxes	–	145,866	-	145,866
Gross receivables	469,401	145,866	-	615,267
Less allowance for doubtful accounts	(234,167)	(98,216)	-	(332,383)
Taxes receivables, net	235,234	47,650	-	282,884
Other	10	-	115	125
Other long-term receivables:				
Tobacco settlement rights and other				1,679
Total				$ 284,688

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 collected after that period, are recorded as unavailable property taxes 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.

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, 2014, the PG reported a receivable of $1.7 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, 2014, the outstanding balance of the loan was $6.9 million, and pledged property tax receipts were sufficient to meet debt service payments.

Component Unit and Pension Trust Fund Receivables

Component unit receivables at September 30, 2014, consist of the following (expressed in thousands):

Utility service charges	$ 20,234
Port fees	3,497
Students	2,213
Patients	22,826
Other	5,746
Total	$ 54,516

6. Unavailable Revenues

The components of unavailable revenues of the general fund as of September 30, 2014, consist of the following (expressed in thousands):

Property tax	$ 64,160
Income tax	114,751
Total	$ 178,911

7. Interfund Transfers

Interfund transfers for the year ended September 30, 2014, consisted of the following (expressed in thousands):

Transfers to	General	PFA Debt Service	PFA Capital Projects	Other Governmental	West Indian Company	Other Business Type	Total
General	$ –	$ 104,339	$ 1,100	$ –	$ 700	$ –	$ 106,139
PFA Debt Service	146	–	-	-	-	-	146
Other governmental	3,292	451	-	-	-	-	3,743
Other business-type	6,000	–	-	-	-	-	6,000
Total	$ 9,438	$ 104,790	$ 1,100	$ –	$ 700	$ –	$ 116,028

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 $104.3 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 $1.1 million transfer from the PFA Capital Projects Fund, representing reprogrammed investment income. Significant transfers made from the General Fund include a transfer of $6 million to the Bureau of Motor Vehicles Fund (a non-major business-type fund), $2 million to the St. Croix Capital Improvement Fund (a non-major governmental fund) and a transfer of $1 million to the Crisis Intervention Fund (a non-major governmental fund).

Significant transfers from the PFA Debt Service Fund included a transfer of $451 thousand to the PFA Operating Fund (a non-major governmental fund), representing interest earned from unexpended bond proceeds.

Due From/To Other Funds

Due from other funds	General	PFA Debt Service	PFA Capital Projects	Other Governmental	West Indian Company	Other Business Type	Total
General	$ –	$ –	$ –	$ 18,527	$ –	$ 739	$ 19,266
Other governmental	17,500	-	–	–	–	–	17,500
Total Governmental Funds	17,500	-	–	18,527	–	739	36,766
		-					
West Indian Company	5,400	–	–	-	–	-	5,400
Other enterprise	200	–	32,046	2,061	–	–	34,307
Total Enterprise Funds	5,600	–	32,046	2,061	–	-	39,707
Total	$ 23,100	$ –	$ 32,046	$ 20,588	$ –	$ 739	$ 76,473

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 $14.3 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 $8 million due to the St. Croix Capital Improvement Fund from the General Fund for capital improvement projects, $829 thousand due from the Virgin Islands Lottery to the Pharmaceutical Assistance to the Aged Fund and $913 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 be transferred to these funds.

Contributions from the Virgin Islands Lottery (a non-major enterprise fund) amounted to $4.1 million, which represented contributions to the VI Educational Initiative Fund (a non-major governmental fund) of $1.4 million, a contribution to the Pharmaceutical Assistance to the Aged Fund (a non-major governmental fund) of $1.4 million, a contribution to GERS of $968 thousand and a contribution to the Horse Racing Commission of $261 thousand.

The due to PFA Capital Projects funds includes $31.7 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.

8. Restricted Assets

Primary Government

Restricted assets of proprietary funds and business-type activities as of September 30, 2014, include cash and cash equivalents as follows (expressed in thousands):

Unemployment insurance funds	$ 7,261
WICO debt service funds	2,712
Total	$ 9,973

Component Units

Restricted assets of component units as of September 30, 2014, include cash and cash equivalents, investments, and receivables as follows (expressed in thousands):

Cash and cash equivalents:	
Debt service and sinking fund requirements	$ 21,263
Endowment funds	81
HUD project funds	1,524
Revolving loan funds	21,396
Construction funds	345
Renewal and replacement funds	1,263
Other	3,907
Total	49,779
Investments:	
Debt service and sinking fund requirements	33,140
Construction funds	3,461
Endowment funds	35,938
Renewal and replacement funds	12,088
Revolving loan funds	5,797
Other	320
Total	90,744
Other:	
Pledged funds	27,155
Total	$ 167,678

9. Capital Assets

Primary Government

Capital assets activity for the governmental activities for the year ended September 30, 2014, is summarized as follows (expressed in thousands):

	Beginning Balance (as restated)	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 193,949	$ 1,914	$ -	$ -	$ 195,863
Construction in progress	134,039	32,634	-	-	166,673
Total capital assets not being depreciated	327,988	34,548	-	-	362,536
Capital assets being depreciated:					
Land improvements	6,814	1,220	-	-	8,034
Infrastructure	252,794	1,049	-	-	253,843
Buildings and improvements	460,115	4,293	-	-	464,408
Machinery and equipment	161,974	13,120	-	-	175,094
Total capital assets being depreciated	881,697	19,682	-	-	901,379
Less accumulated depreciation for:					
Land improvements	(3,813)	(294)	-	-	(4,107)
Infrastructure	(75,199)	(9,145)	-	-	(84,344)
Buildings and improvements	(199,507)	(13,557)	-	-	(213,064)
Machinery and equipment	(130,932)	(10,435)	-	-	(141,367)
Total accumulated depreciation	(409,451)	(33,431)	-	-	(442,882)
Total capital assets being depreciated, net	472,246	(13,749)	-	-	458,497
Governmental activities capital assets, net	$ 800,234	$ 20,799	$ -	$ -	$ 821,033

Capital assets activity for the business-type activities for the year ended September 30, 2014, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 5,147	$ 31	$ -	$ –	$ 5,178
Construction in progress	47,435	27,039	(53,219)	(37)	21,218
Total capital assets not being depreciated	52,582	27,070	(53,219)	(37)	26,396
Capital assets being depreciated:					
Land improvements	348	–	–	–	348
Buildings and improvements	67,955	79	9,075	–	77,109
Machinery and equipment	14,181	1,109	44,144	(2,374)	57,060
Infrastructure	8,117	12,812	–	–	20,929
Total capital assets being depreciated	90,601	14,000	53,219	(2,374)	155,446
Less accumulated depreciation for:					
Land improvements	(341)	(1)	-	–	(342)
Infrastructure	(31,297)	(2,589)	-	–	(33,886)
Buildings and improvements	(7,024)	(905)	-	15	(7,914)
Machinery and equipment	(2,040)	(2,389)	-	–	(4,429)
Total accumulated depreciation	(40,702)	(5,884)	-	15	(46,571)
Total capital assets being depreciated, net	49,899	8,116	53,219	–	108,876
Business-type activities capital assets, net	$ 102,481	$ 35,186	$ -	$ (2,396)	$ 135,271

Depreciation and amortization expense was charged to functions of the PG for the year ended September 30, 2014, as follows (expressed in thousands):

Governmental activities:	
General government	$ 15,359
Public safety	1,420
Health	943
Education	5,781
Public Housing and Welfare	885
Culture and recreation	543
Transportation and communication	8,500
Total	$ 33,431

Business-type activities:	
WICO – depreciation	$ 2,007
Other enterprise funds – depreciation and amortization	3,877
Total	$ 5,884

Component Units

Capital assets activity for the discretely presented component units for the year ended September 30, 2014, is summarized as follows (expressed in thousands):

	Beginning Balance (as restated)	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 96,979	$ 5,749	$ -	$ -	$ 102,728
Construction in progress	44,810	58,499	(12,821)	(753)	89,735
Total capital assets not being depreciated	141,789	64,248	(12,821)	(753)	192,463
Capital assets being depreciated:					
Buildings and improvements	1,788,102	20,456	11,054	(3,850)	1,815,762
Airport and marine terminal facilities	149,647	-	818	(96)	150,369
Personal property and equipment	156,238	6,055	(1)	(19,930)	142,362
Intangible assets	2,919	-	-	-	2,919
Total capital assets being depreciated	2,096,906	26,511	11,871	(23,876)	2,111,412
Less accumulated depreciation for:					
Buildings and improvements	(1,016,855)	(50,902)	-	829	(1,066,928)
Airport and marine terminal facilities	(115,591)	(5,544)	-	96	(121,039)
Personal property and equipment	(109,814)	(7,190)	-	18,776	(98,228)
Intangible assets	(1,458)	(174)	-	-	(1,632)
Total accumulated depreciation	(1,243,728)	(63,810)	-	19,701	(1,287,827)
Total capital assets being depreciated, net	(853,178)	(37,299)	11,871	43,577	823,585
Component unit capital assets, net	$ 994,976	$ 26,949	$ (950)	$ 44,330	$ 1,016,048

Depreciation expense charged by each component unit for the year ended September 30, 2014, was as follows (expressed in thousands):

Virgin Islands Housing Authority	$ 6,945
Virgin Islands Port Authority	19,239
Virgin Islands Water and Power Authority:	
Electric System	15,906
Water System	3,601
Virgin Islands Government Hospital and Health Facilities Corporation:	
Roy L. Schneider Hospital	3,493
Juan F. Luis Hospital	3,211
University of the Virgin Islands	3,051
Other component units	8,364
Total	$ 63,810

10. Long-Term Liabilities

The change in long-term bonds and loans for governmental activities was as follows for the year ended September 30, 2014 (expressed in thousands):

	Beginning Balance (as restated)	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Bond Payable						
Matching (Excise Tax) Bonds						
2013 B Revenue and Refunding Bonds	$ -	$ 51,365	$ -	$ 51,365	$ -	$ 51,365
2013 A Revenue Bonds	36,000	-	-	36,000	-	36,000
2012 Series A Revenue Bonds	142,640	-	-	142,640	800	141,840
2010 Series A & B Revenue Bonds	397,060	-	(2,065)	394,995	2,155	392,840
2009 Series A Revenue Bonds (Cruzan)	37,490	-	(605)	36,885	640	36,245
2009 Series A-1, B & C Revenue and Refunding Bonds	396,585	-	(25,355)	371,230	26,460	344,770
2009 Series A Revenue Bonds (Diageo)	250,000	-	(4,040)	245,960	4,290	241,670
2004 Series A Revenue Bonds	52,730	-	(48,325)	4,405	4,405	–
Total	1,312,505	51,365	(80,390)	1,283,480	38,750	1,244,730
Gross Receipts Tax Bonds						
2014 A Revenue Bonds	-	49,640	-	49,640	-	49,640
2012 Series A & B Revenue	228,805	-	(10,460)	218,345	11,445	206,900
2012 C Revenue Bonds	35,115	-	-	35,115	1,670	33,445
2006 Series A Revenue Bonds	208,875	-	(2,905)	205,970	3,015	202,955
2003 Series A Revenue Bonds	241,510	-	(4,010)	237,500	4,210	233,290
Total	714,305	49,640	(17,375)	746,570	20,340	726,230
Tobacco Settlement Bonds						
2006 Series A Tobacco Bonds	7,290	-	-	7,290	–	7,290
2001 Series A Tobacco Bonds	12,645	-	(1,625)	11,020	–	11,020
Total	19,935	–	(1,625)	18,310	–	18,310
Total bonds payable	2,046,745	101,005	(99,390)	2,048,360	59,090	1,989,270
Plus (less):						
Bonds premium	50,122	7,727	(5,218)	52,631	2,914	49,717
Bonds discount	(3,533)	-	177	(3,356)	(177)	(3,179)
Bonds accretion	4,500	706	-	5,206	5,206	–
Total bonds payable, net	2,097,834	109,438	(104,431)	2,102,841	67,033	2,035,808
Loans Payable						
Series 2014B Note	–	14,000	–	14,000	1,833	12,167
Series 2013A Note	2,364	2,770	(886)	4,248	1,810	2,438
Series 2013B Note	–	40,000	(40,000)	–	–	–
Series 2012A Tax Increment Financing	13,525	-	(245)	13,280	261	13,019
Series 2011 B Note	8,043	-	(1,106)	6,937	–	6,937
Series 2009 Note	2,627	-	(1,728)	899	899	–
Total	26,559	56,770	(43,965)	39,364	4,803	34,561
Total governmental bonds and loans payable	$ 2,124,393	$ 166,208	$ (148,396)	$ 2,142,205	$ 71,836	$ 2,070,369

The change in other long-term liabilities for governmental activities was as follows for the year ended September 30, 2014 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Accrued compensated absences	$ 51,282	$ -	$ (13,391)	$ 37,891	$ 4,890	$ 33,001
Retroactive union arbitration	195,286	-	-	195,286	-	195,286
Litigation	13,054	673	(2,715)	11,012	74	10,938
Landfill closure and post closure cost	95,810	3,676	(4,064)	95,422	-	95,422
Post-employment benefit	284,974	34,082	-	319,056	-	319,056
Total	$ 640,406	$ 38,431	$ (20,170)	$ 658,667	$ 4,964	$ 653,703

Accrued compensated absences, retroactive union arbitration, litigation, landfill closure and post-closure costs, 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, 2014 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Workers compensation claims	$ 23,792	$ 8,181	$ (4,842)	$ 27,131	$ 1,921	$ 25,210
Loan payable – U.S. Treasury	76,406	11,100	(10,558)	76,948	76,948	–
Note payable - WICO	21,239	7,324	(45)	28,518	452	28,066
Total	$ 121,437	$ 26,605	$ (15,445)	$ 132,597	$ 79,321	$ 53,276

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.

Bonds Payable

Bonds payable outstanding at September 30, 2014, are comprised of the following (expressed in thousands):

	Maturity	Rates (%)	Balance
Matching (Excise Tax Bonds			
2013 Series B Revenue Refunding Bonds	2024	3.00 - 5.00	$ 51,365
2013 Series A Revenue Refunding Bonds	2024	5.00 - 5.25	36,000
2012 Series A Revenue Bonds	2032	4.00 - 5.00	142,640
2010 Series A & B Revenue Bonds	2029	4.00 - 5.25	394,995
2009 Series A Revenue Bonds (Cruzan)	2039	3.00 - 6.00	36,885
2009 Series A-1, B & C Revenue and Refunding Bonds	2039	3.00 - 5.00	371,230
2009 Series A Revenue Bonds (Diageo)	2037	6.00 - 6.75	245,960
2004 Series A Revenue Bonds	2024	4.00 - 5.25	4,405
Total			1,283,480
Gross Receipts Tax Bonds			
2014 Series A Revenue Bonds	2034	5.00	49,640
2012 Series A & B Revenue and Refunding Bonds	2032	2.25 - 5.25	218,345
2012 Series C Revenue Bonds	2042	3.00 - 5.00	35,115
2006 Series A Revenue Bonds	2029	3.50 - 5.00	205,970
2003 Series A Revenue Bonds	2033	4.00 - 5.25	237,500
Total			746,570
Tobacco Settlement Bonds			
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.00 – 8.00	7,290
2001 Series A Tobacco Bonds	2031	4.62 – 5.13	11,020
Total			18,310
Total bonds payable			$ 2,048,360
Plus (Less):			
Bonds premium			$ 52,631
Bonds discount			(3,356)
Bonds accretion			5,206
Total bonds payable, net			$ 2,102,841

On October 17, 2013, the Public Finance Authority (PFA) issued the 2013 Series B Revenue Refunding Bonds (the 2013 Series B Bonds), the proceeds of which amounted to $51.4 million. The Government has pledged matching funds, described below, for the timely payment of the principal and interest on the 2013 Series B Bonds. The 2013 Series B Bonds bear interest at rates ranging from 3.00% to 5.00%, and mature on October 1, 2024. The bonds were issued to: (i) refund a portion of the 2004 Series A Bonds amounting to $48.3 million, (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds. The 2013 Series B 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.

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.

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 eight times. Under the Tax Increase Prevention Act of 2014, the rate was extended through December, 31, 2014.

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 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 2013 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 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.

On September 7, 2012, PFA issued the 2012 Series A 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 2022 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 September 5, 2014, PFA issued the 2014 Series A (Working Capital) Revenue Bonds, the proceeds of which amounted to $49.6 million. The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the 2014 Series A Revenue Bonds. The 2014 Series A Bonds bear interest at 5.00%, and mature from 2015 to 2034. The bonds were issued to: (i) provide working capital to the Government to finance various operating expenses (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds.

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 3.00% to 5.00% and mature from 2017 to 2042.

The Series 2012 C Bonds were issued to: (i) finance certain operating expenses and other obligation of the government (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.

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 million, bear interest at rates ranging from 2.25% to 5.00% mature from 2017 to 2032. The 2012 Series B Bonds, amounting to $31.7 million, bear interest at the rate of 5.25% and mature in 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 $399.05 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 million, bear interest at rates ranging from 4.00% to 5.00% mature from 2012 to 2029. The 2010 Series B Bonds, amounting to $94.05 million, bear interest at rates ranging from 4.25% to 5.25% and mature from 2020 to 2029.

The bonds were issued to: (i) to finance various operating expenses of the primary government, (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.

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 $39.19 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. Provisions of the agreement call for payments of excess matching funds, after debt service, debt service reserve, and sinking fund redemption payments, to the Government and Cruzan of 60%-80%, and 54%-60% respectively.

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 $458.84 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 $86.35 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.

The 2009 Series A-2 Bonds amounted to $8.65 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 $266.33 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 $97.51 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 optional sinking fund installment redemptions beginning October 1, 2019 at a redemption price equal to 100% of the principal amount, plus interest accrued, to the date of redemption.

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 2037 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. Provisions of the agreement call for payments of excess matching funds, after debt service, debt service reserve, and sinking fund redemption payments to Diageo of 49.5% - 57%. 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 $39.5 million, $39.1 million and $23.1 million for the years ended September 30, 2014, 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.

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 million in funds were deposited into the Escrow Fund accounts. At September 30, 2014, $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.

On December 1, 2004, PFA issued the 2004 Series A Bonds, the proceeds of which amounted to $94 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 October 17, 2013, PFA issued the Series 2013B Bonds to advance refund the remaining outstanding bonds of the 2004 Series A Bonds amounting to $58.8 million. As of September 30, 2014, the value of the bonds was $63.2 million and paid on October 1, 2014.

On December 17, 2003, PFA issued the Series 2003A Revenue Bonds, the proceeds of which amounted to approximately $268 million. The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the Series 2003A Revenue Bonds. 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 bond bears interest at 4% - 5.25% and matures from 2005 to 2033. The Series 2003A Revenue Bonds are not subject to optional redemption prior to October 1, 2014.

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, 2014 amounted to $11.02 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, 2014, resulted in a turbo redemption of $220 thousand on May 15, 2014.

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, 2014, $162.9 million of the defeased 1999 Series A Revenue Bonds remain outstanding.

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, 2014, $75.8 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, 2014, $77 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.

Following are the future debt service requirements for bonds for which matching funds have been pledged (expressed in thousands):

	Governmental Activities - Matching Fund Bonds											
	Revenue Bonds Series 2004 A		Revenue Bonds Series 2009 A (Diageo)		Revenue Bonds Series 2009 A-1		Revenue Bonds Series 2009 B		Revenue Bonds Series 2009 C		Revenue Bonds Series 2009 A (Cruzan)	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:												
2015	$ 4,405	$ 1,655	$ 4,290	$ 16,332	$ 1,650	$ 3,830	$ 17,600	$ 10,311	$ 7,210	$ 3,618	$ 640	$ 2,155
2016	-	-	4,575	16,048	1,705	3,773	18,505	9,409	7,745	3,244	670	2,122
2017	-	-	4,890	15,729	1,770	3,710	19,450	8,460	8,040	2,850	705	2,087
2018	-	-	5,235	15,387	1,840	3,639	20,450	7,462	8,440	2,438	740	2,051
2019	-	-	5,600	15,022	1,915	3,563	21,500	6,414	8,860	2,005	780	2,013
2020-2024	-	-	34,370	68,739	10,995	16,402	82,260	16,259	35,675	3,513	4,620	9,341
2025-2029	-	-	47,870	55,232	13,995	13,406	35,260	1,307	-	-	6,235	7,729
2030-2034	-	-	66,825	36,279	17,960	9,436	-	-	-	-	8,420	5,546
2035-2039	-	-	72,305	10,172	23,060	4,334	-	-	-	-	11,365	2,600
2040-2044	-	-	-	-	5,345	134	-	-	-	-	2,710	81
Total	$ 4,405	$ 1,655	$ 245,960	$ 248,940	$ 80,235	$ 62,227	$ 215,025	$ 59,622	$ 75,970	$ 17,668	$ 36,885	$ 35,725

	Governmental Activities - Matching Fund Bonds											
	Revenue Bonds Series 2010 A		Revenue Bonds Series 2010 B		Revenue Bonds Series 2012 A		Revenue Bonds Series 2013 A		Revenue Bonds Series 2013 B		Total Matching Bond Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:												
2015	$ 2,155	$ 14,983	$ -	$ 4,833	$ 800	$ 7,028	$ -	$ 1,830	$ -	$ 2,414	$ 38,750	$ 68,989
2016	2,270	14,883	-	4,833	825	6,995	2,210	1,775	5,070	2,338	43,575	65,420
2017	2,395	14,766	-	4,833	850	6,962	2,320	1,662	5,250	2,157	45,670	63,216
2018	2,520	14,643	-	4,834	900	6,927	7,555	1,415	-	2,052	47,680	60,848
2019	2,660	14,514	-	4,834	950	6,890	7,905	1,028	-	2,052	50,170	58,335
2020-2024	58,555	68,463	14,765	23,533	5,800	33,797	12,985	2,538	33,340	6,256	293,365	248,841
2025-2029	179,020	40,162	64,285	12,663	8,000	32,178	3,025	78	7,705	193	365,395	162,948
2030-2034	51,370	1,284	15,000	394	124,515	15,579	-	-	-	-	284,090	68,518
2035-2039	-	-	-	-	-	-	-	-	-	-	106,730	17,106
2040-2044	-	-	-	-	-	-	-	-	-	-	8,055	215
Total	$ 300,945	$ 183,698	$ 94,050	$ 60,757	$ 142,640	$ 116,356	$ 36,000	$ 10,326	$ 51,365	$ 17,462	$1,283,480	$ 814,436

Following are the future debt service requirements for bonds for which gross receipts taxes have been pledged (expressed in thousands):

	Governmental Activities – Gross Receipts Tax Bonds							
	Revenue Bonds Series 2003 A		Revenue Bonds Series 2006		Revenue Bonds Series 2012 A		Revenue Bonds Series 2012 B	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:								
2015	$ 4,210	$ 11,860	$ 3,015	$ 9,901	$ 9,940	$ 7,824	$ 1,505	$ 1,552
2016	4,420	11,639	3,125	9,748	10,815	7,590	1,585	1,471
2017	4,655	11,401	3,240	9,589	11,110	7,344	1,670	1,385
2018	4,895	11,150	3,360	9,423	11,415	7,090	1,765	1,295
2019	5,155	10,887	3,485	9,252	11,835	6,725	1,855	1,200
2020-2024	30,115	49,995	70,185	39,050	22,530	29,733	10,900	4,386
2025-2029	38,520	41,386	97,785	17,204	47,030	22,390	11,030	1,196
2030-2034	145,530	21,133	21,775	463	63,360	6,575	–	–
Total	$ 237,500	$ 169,451	$ 205,970	$ 104,630	$ 188,035	$ 95,271	$ 30,310	$ 12,485

	Revenue Bonds Series 2012 C		Revenue Bonds Series 2014 A		Total Gross Receipts Tax Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:						
2015	$ 1,670	$ 1,591	$ –	$ 1,420	$ 20,340	$ 34,148
2016	1,720	1,540	1,480	2,445	23,145	34,433
2017	1,775	1,488	1,560	2,369	24,010	33,576
2018	1,820	1,434	1,635	2,289	24,890	32,681
2019	1,600	1,367	1,720	2,205	25,650	31,636
2020-2024	7,700	5,554	10,020	9,609	151,450	138,327
2025-2029	2,510	4,406	12,870	6,762	209,745	93,344
2030-2034	4,170	3,624	16,525	3,106	251,360	34,901
2035-2039	6,070	2,309	3,830	96	9,900	2,405
2040-2044	6,080	627	–	–	6,080	627
Total	$ 35,115	$ 23,940	$ 49,640	$ 30,301	$ 746,570	$ 436,078

Bonds Payable

Following are the future debt service requirements for bonds for which tobacco settlement revenues have been pledged (expressed in thousands):

Year	Principal
2015	$ –
2016	-
2017	-
2018	-
2019	-
2020-2024	2,975
2025-2029	-
2030-2034	8,045
2035-2039	48,145
Less future accretion	(40,855)
Total	$ 18,310

Series 2010B Note

On September 12, 2014, PFA issued the Series 2014B Gross Receipts Taxes Subordinate Loan Note (Series 2014B Note) amounting to $14 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2014B Note. The Series 2014B Note bears interest at the 90-day LIBOR rate with 375 basis points. As of September 30, 2014, this rate was 3.99%. The Series 2014B Note will be repaid in equal principal payments of $167 thousand over an 84 month period. The Series 2014B Note was issued to: (i) to finance certain operating expenses of the PG, and (ii) to fund certain costs of issuing the Series 2014B Note. Debt service requirements for the Series 2014B Note at September 30, 2014, is as follows (expressed in thousands):

Year	Principal
2015	$ 2,000
2016	2,000
2017	2,000
2018	2,000
2019	2,000
Thereafter	4,000
	$ 14,000

Series 2013B-3 Note

On March 27, 2014, PFA issued the Series 2013B-3 Subordinate Lien Revenue Anticipation Note (Series 2013B-3 Note) amounting to $20 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2013B-3 Note. The Series 2013B-3 Note bears interest at 6.0% and required payment in full by September 30, 2014. The Series 2013B-3 Note was issued to: (i) to finance certain operating expenses of the PG, and (ii) to fund certain costs of issuing the Series 2013B-3 Note. On September 29, 2014, the Series 2013B-3 Note was repaid to the lender.

On October 16, 2013, PFA issued the Series 2013B-2 Subordinate Lien Revenue Anticipation Note (Series 2013B-2 Note) amounting to $20 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2013B-2 Note. The Series 2013B-2 Note bears interest at 6.0% and required payment in full by September 30, 2014. The Series 2013B-2 Note was issued to: (i) to finance certain operating expenses of the PG, and (ii) to fund certain costs of issuing the Series 2013B-2 Note. On September 29, 2014, the Series 2013B-2 Note was repaid to the lender.

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. Two draws have been made on the Series 2013A Note: $2.66 million was drawn on May 16, 2013 (the Series 2013A-1 drawing) and $2.77 million was drawn on September 12, 2014 (the Series 2013A-2 drawing). The Series 2013A Note bears interest at the 90 day Libor rate plus 375 points to be paid in thirty-six (36) monthly payments. As of September 30, 2014, the LIBOR 90 day interest rate plus 375 points was 3.99%. The Series 2013A-1 and A-2 drawings were 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, 2014, are as follows (expressed in thousands):

Year	Principal
2015	$ 1,733
2016	1,810
2017	705
	$ 4,248

Series 2012A Notes

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, 2014, PFA had $13.28 million in outstanding Series 2012A Notes.

Debt service requirements for the Series 2013A Notes at September 30, 2014, are as follows (expressed in thousands):

Year	Principal
2015	$ 261
2016	275
2017	295
2018	12,449
	$ 13,280

On November 14, 2011, PFA entered into the 2011 Property Tax Revenue Anticipation Note (the Series 2011B Note) in the amount of $13 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, 2014, the outstanding amount of the Series 2011B Note was $6.9 million.

Series 2011B Note

Debt service requirements for the Series 2011B Note at September 30, 2014, are as follows (expressed in thousands):

Year	Principal
2015	$ 6,937
2016	-
2017	-
	$ 6,937

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, 2014, the PG had borrowed $76.9 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. After that date, the loan became subject to interest at federal rates of 2.5765% through December 31, 2013, and 2.3874% after January 1, 2014. During fiscal year 2014, the PG paid $1.98 million in interest to the U.S. Treasury on the UTF loans.

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.

Series 2009 Notes

Debt service requirements for the Series 2009 Notes at September 30, 2014, are as follows (expressed in thousands):

Year	Principal
2015	$ 899

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.

Debt service requirements for the WICO loan at September 30, 2014, are as follows (expressed in thousands):

Year	Principal
2015	$ 452
2016	523
2017	556
2018	591
2019	629
2020	25,767
	$ 28,518

Standby Credit Facility

Under Title 22, Chapter 10 of the VIC, the Virgin Islands Insurance Guaranty Fund is required to maintain a minimum balance of $50 million for claimant payments in the event of a failure of an insurance carrier. 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 million to $10 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 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 million dollars, or (ii) March 31, 2019.

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, 2014, are as follows (expressed in thousands):

Bonds Payable	Maturity	Interest Rate (%)	Balance
Virgin Islands Water and Power Authority (Electric System):			
Revenue bonds of 2012	2025	4.125 - 6.06	$ 66,200
Revenue bonds of 2010	2035	4.00 - 6.85	71,520
Revenue bonds of 2007	2031	4.50 - 5.00	57,585
Revenue bonds of 2003	2028	4.00 – 5.00	53,440
Virgin Islands Water and Power Authority (Water System):			
Revenue bonds of 1998	2017	5.5	13,560
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	1,755
Series C Revenue bonds of 2003	2023	4.40	6,278
Subtotal			288,343
Plus unamortized premium			3,590
Less unamortized discount			(66)
Bonds payable, net			291,867
Less amount due within one year			(16,066)
Bonds payable, due in more than one year			$ 275,801

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, 2014 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due With One Year	Amounts
Bonds payable:						
Virgin Islands Water and Power Authority:						
Electric System	$ 262,641	$ –	$ (10,365)	$ 252,276	$ 10,555	$ 241,721
Water System	16,432	–	(2,938)	13,494	3,125	10,369
Virgin Islands Port Authority	28,363	–	(2,266)	26,097	2,386	23,711
Total	307,436	–	(15,569)	291,867	16,066	275,801
Notes payable:						
Virgin Islands Economic Development Authority	392	–	(26)	366	25	341
Virgin Islands Water and Power Authority:						
Electric System	8,348	–	(2,475)	5,873	2,742	3,131
Virgin Islands Housing Authority	1,555	–		1,555	250	1,305
Virgin Islands Housing Finance Authority	1,339	–	(77)	1,262	78	1,184
UVI's Research & Technology Park	3,000	–	(558)	2,442	103	2,339
University of the Virgin Islands	57,712		(1,891)	55,821	1,947	53,874
Total	72,346	–	(5,027)	67,319	5,145	62,174
Line of credit payable:						
Virgin Islands Water and Power Authority:						
Electric System	16,875	8,253	–	25,128	–	25,128
Water System	2,500	–	–	2,500	–	2,500
Roy L. Schneider Hospital	–	750	–	750	–	750
Total	19,375	9,003	–	28,378	–	28,378
Other long-term liabilities:						
University of the Virgin Islands	5,271	1,369	(1,865)	4,775	1,361	3,414
Virgin Islands Housing Authority	11,369	942	(145)	12,166	595	11,571
Virgin Islands Water and Power Authority:						
Electric System	35,390	6,900	–	42,290	–	42,290
Water System	7,101	921	–	8,022	–	8,022
Virgin Islands Port Authority	–	2,300	(575)	1,725	900	825
Economic Development Authority	114	620	–	734	–	734
Juan F. Luis Hospital	245	–	(208)	37	37	–
Virgin Islands Waste Management Authority	1,041	–	(18)	1,023	–	1,023
Virgin Islands Housing Finance Authority	9,737	–	(1,759)	7,978	–	7,978
Total	$ 70,268	$ 13,052	$ (4,570)	$ 78,750	$ 2,893	$ 75,857

In May 2012, the Electric System of WAPA issued: (i) 2013A Electric System Revenues Refunding Bonds amounting to $17.3 million; (ii) 2013B Electric System Subordinated Revenue Bonds amounting to $19.7 million; and (iii) 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) to fund a portion of the cost of certain capital expenditures, 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.

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, make certain required deposits to the Subordinated Debt Service Fund to finance the costs of certain capital improvements, refinance capital improvements funded through draws on a Line of Credit and to reinstall a $10 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 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.

Under the term of the bonds resolution relative to the electric system revenue and refinancing bonds, payments of the principal and interest is secured by an irrevocable lien on the electric system net revenues exclusive of any funds which may be established pursuant to the bond resolution for certain other purposes including the investments and income, if any.

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 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 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).

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, 2014, the Authority's debt coverage ratio was 125% for senior coverage, 115% for senior and subordinate coverage and 100% 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 November 2008, the Authority obtained general obligation notes from First Bank in the amount of $40 million at an interest rate of 5.5% (the “Notes”), the proceeds of which were used to finance outstanding invoices from HOVENSA. The Notes were issued based on a five year amortization, but with a balloon payment in three years. In October 2008, pursuant to Amended Order No. 05/2009 in Docket No. 289, the PSC ordered (i) the principal and interest payments on the Notes to be recognized for recovery through the LEAC billing factor for the Electric System and the Water System commencing in November 2008, of which 82.5%, or $7.6 million annually, has been allocated to the Electric System and 17.5%, or $1.6 million annually to the Water System, and (ii) the collection of the fuel costs recoverable balance to be reduced by the principal amount of the Notes. Pursuant to the Guaranty of the Government for the benefit of First Bank, dated November 13, 2008 (the General Obligation Guaranty), which was authorized by the Legislature in Act 7028, the Government agreed to guarantee the payment of the principal and interest on the Notes.

In October 2010, the Authority petitioned the commission for approval of a refinancing of the $40 million term loan. Through Order #16/2011 issued by the PSC in December 2010, the loan was approved. On December 22, 2010, the term-loan was refinanced at an interest rate of 5.25%. The term loan was refinanced based on a new five year amortization but with a balloon payment in three years.

In June 2012, the Authority petitioned the Commission for the approval of a refinancing of the remaining balance of the term loan following the Series 2012 Bond issue. Through Order # 27/2012 issued by the PSC in July, 2012, the loan was approved. The term loan was refinanced at an interest rate of 5.50% and final maturity on April 2016. The new allocation of the principal and interest payments of the Notes to be recognized for recovery through the LEAC billing factor for the Electric System is 30% and 70% for the Water System. As of September 30, 2014, the outstanding balance on the Notes was $5.9 million.

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.

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, 2014 and 2013 was 165% and 174% of the aggregate debt service as defined in the Bond Resolution. 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.

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.

In August 1998, VIHFA issued the 1998 Revenue Bonds Series A in the amount of $3 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. Fixed maturities required to pay principal and interest on discretely presented component units' bonds payable with fixed maturities at September 30, 2014, are as follows (expressed in thousands):

Year	Principal	Interest	Total
2015	$ 16,054	$ 13,951	$ 30,005
2016	16,801	13,205	30,006
2017	17,623	12,375	29,998
2018	18,503	11,504	30,007
2019	12,820	12,010	24,830
2020-2024	86,057	39,728	125,785
2025-2029	67,005	21,739	88,744
2030-2034	45,800	6,978	52,778
2035-2039	7,680	517	8,197
Total	288,343	$ 132,007	$ 420,350
Plus unamortized premium	3,590		
Less unamortized discount	(66)		
Bonds payable, net	$ 291,867		

11. General Tax Revenue

For the year ended September 30, 2014, general tax revenue of the PG consisted of the following (expressed in thousands):

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total
Income taxes	$ 371,182	$ -	$ -	$ -	$ 371,182
Real property taxes	47,157	-	-	5,432	52,589
Gross receipts taxes	1,760	152,794	3,118	250	157,922
Excise taxes	193,069	80,210	-	4,661	277,940
Other taxes	51,002	-	-	6,360	57,362
	$ 664,170	$ 233,004	$ 3,118	$ 16,703	916,995
Tax revenue recognized on the full accrual basis					46,866
Total tax revenue – government-wide					$ 963,861

12. Governmental Fund Balances

Following is a detail of the aggregated fund balances presented in the Balance Sheet – Governmental Funds as of September 30, 2014 (expressed in thousands):

	General	PFA Debt Service	PFA Capital Projects	Federal Funds	Other Governmental	Total
Restricted for:						
Debt Service	$ –	$ 246,657	$ –	$ –	$ –	$ 246,657
Capital Projects	–	–	90,012	-	–	90,012
General Government	–	–	–	57,031	–	57,031
Total	–	246,657	90,012	57,031	–	393,700
Committed to:						
General Government	12,128	–	–	–	12,733	24,861
Public Housing and Welfare	–	–	–	–	65	65
Transportation and Communication	–	–	–	–	10,984	10,984
Culture and Recreation	(2)	–	–	–	338	336
Total	12,126	–	–	–	24,120	36,246
Assigned to:						
General Government	–	–	–	–	25,694	25,694
Public Safety	–	–	–	–	1,431	1,431
Health	–	–	–	–	1,285	1,285
Public Housing and Welfare	–	–	–	–	2,046	2,046
Education	–	–	–	–	(8,690)	(8,690)
Transportation and Communication	–	–	–	–	2,538	2,538
Culture and Recreation	–	–	–	–	613	613
Total	–	–	–	–	24,917	24,917
Unassigned	(99,794)	–	–	–	-	(99,794)
Total Fund Balances	$ (87,668)	$ 246,657	$ 90,012	$ 57,031	$ 49,037	$ 355,069

The assigned fund balance includes approximately $24.9 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.

13. 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 38 collective bargaining agreements. Nine 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.

As of September 30, 2014, the Government has contractual liabilities for retroactive union arbitration salary increases estimated at $195.3 million accruing from fiscal years 1993 through 2010, 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.

Federal Assistance Programs

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Monetary and nonmonetary federal financial assistance to governmental funds amounted to approximately $224.3 million and $55.3 million, respectively, for the year ended September 30, 2014.

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.

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 $11 million for awarded and anticipated unfavorable judgments as of September 30, 2014. Management believes that any liability in excess of amounts recorded will not have a material effect on the basic financial statements.

Changes in the reported provision for legal claims during September 30, 2014, resulted from the following activity (expressed in thousands):

	Beginning Balance at October 1, 2013	New Claims	Claims Payments and Changes in Estimates	Ending Balance at September 30, 2014
Provision for legal claims	$ 13,054	$ 673	$ (2,715)	$ 11,012

The breakdown of the provision for legal claims at September 30, 2014, is as follows (expressed in thousands):

Governmental activities	
Current portion of provision for legal claims	$ 75
Long-term portion of provision for legal claims	10,937
	$ 11,012

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. This resulted in a delay in the issuance of property tax assessments. The 2013 and 2014 property tax assessments were issued in August, 2014 and March, 2015, respectfully.

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.

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 $95.4 million reported as landfill compliance, closure, and post-closure care liability at September 30, 2014, 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, 2014.

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

Landfill	Estimated Used capacity	Estimated Closure date
Bovoni	96%	2020
Anguilla	96%	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.

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 was estimated at approximately $50 million. The treatment facilities were completed in July 2007 and January 2008 at a cost of approximately $27 million and $29 million for the St. Croix and the St. Thomas treatment facilities, respectfully. 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.

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. Subsequently 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 2014, as recorded in the Government Insurance Fund was as follows (expressed in thousands):

Claims payable, beginning of year	$ 23,792
Incurred claims and changes in estimates	8,181
Payments for claims and adjustments expenses	(4,842)
Claims payable, end of year	$ 27,131

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.

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 audited financial statements.

On October 9, 2014, 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. More recent actuarial reports indicate that the system may default by the year 2022.

The Task Force has submitted recommendations to the Legislature to: (i) increase government and employee contributions towards pension benefits, (ii) raise contribution rates for senators and judges, (iii) reduce retiree current benefits by 10 percent, (iv) increase the early retirement age from 50 to 55 and the regular retirement age from 60 to 65, (vi) limit the cost of living increase, and (vii) change 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 and March 2015. On February 5, 2015, GERS increased employee contribution rates by 1% to be implemented over a three year period and to be effective for three years. PG contributions increased by 3% from 17.5% to 20.5% for the next five years.

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 $4.1 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 $1.2 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, 2014.

WAPA has signed purchase power agreements with several companies to integrate a combined 18MW of solar electricity into the WAPA's electrical grid system. The agreements are for between 20 and 25 years, expiring between 2022 and 2027. WAPA will not own the solar assets, but will be able to purchase solar generated electricity at contracted rates.

In July 2013, the Governing Board of WAPA voted unanimously to approve an agreement between WAPA and the Vitol Group to build new infrastructure, convert existing turbines, as well as store and supply fuel for propane-based power generation. The project is designed to reduce the Authority's fuel costs by 30% and therefore intended to allow for significant savings to the Authority's rate payers. The project budgeted costs of approximately $90 million are to be paid upfront by Vitol Group.

The Authority will repay the ultimate project costs fronted by Vitol based on a 7 years amortization schedule (with the option to complete payment in 5 years) to be finalized once the project has been completed. The project targeted for completion in early 2015.

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.

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. The amount paid by the Water System under the agreements was $7.4 million for the year ended June 30, 2014.

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 2004, 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 $50,000 was paid in fiscal year 2014 by WMA.

As of September 30, 2014 the Government and WMA have accrued stipulated penalties associated with the consent decree of $5.5 million. The Government has recorded a liability of $3.7 million related to the stipulated penalties as of September 30, 2014.

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, 2014, the hospital owed the radiology practice $8.5 million.

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.

14. Retirement Systems

Plan Description

GERS is the administrator of a single-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.

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.

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 set by statute, but should be actuarially determined. 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, 2014 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, 2014 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, 2014, 2013, and 2012 were as follows (expressed in thousands):

	Contractually Required Contributions	Contributions Made	Percentage Contributed
2012	$ 178,644	$ 66,677	37.3%
2013	$ 172,440	$ 64,431	37.4%
2014	$ 189,715	$ 68,298	36.0%

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, 2014, 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.

Below is funded status information as of the most recent actuarial valuation dates (expressed in thousands). The Schedule of Funding Progress in the Required Supplementary Information section immediately following the Notes presents multiyear trend information showing whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percentage of Covered payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
October 1,2014	**$ 1,154,729**	**$ 1,973,620**	**$ 3,128,349**	**36.91%**	**$ 355,604**	**555.01%**

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.

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 $2.2 million and $1.4 million, respectively.

Postemployment Benefits

In addition to the pension benefits described, 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, 2013 actuarial valuation of OPEB, approximately 7,862 active employees, 7,869 service retirees, 2,051 spouses of service and disability retirees covered for medical and dental benefits, 295 disability retirees, and 215 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.

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, 2014 and 2013, the Legislature budgeted, and paid, $48.9 and 23.9 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, 2011 and 2013. 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.

The following table shows the components of the PG's annual postemployment benefits cost, percentage of OPEB costs contributed, and the net OPEB obligation (expressed in thousands):

Annual OPEB Cost and Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2011	$ 89,962	35.06%	$ 201,423
9/30/2012	$ 80,322	45.65%	$ 245,079
9/30/2013	$ 71,176	43.95%	$ 284,974
9/30/2014	$ 65,247	47.77%	$ 319,056

The following table shows the components of the PG's annual postemployment benefits cost for the fiscal year ended September 30, 2014, and the changes in the net estimated obligation for future payments of benefits (expressed in thousands):

Annual OPEB Cost and Net Postemployment Benefit Obligation

Annual required contribution	$ 65,811
Interest on underfunded OPEB obligation	9,974
Adjustment to underfunded OPEB obligation	(10,538)
Annual OPEB cost	65,247
Employer contributions	(31,165)
Change in the net OPEB obligation	$ 34,082
Net OPEB obligation - beginning of year	$ 284,974
Change in the net OPEB obligation	34,082
Net OPEB obligation - end of year	$ 319,056

Actuarial Accrued Liability and Funding Status

Actuarial Valuation Date	October 1, 2013
Actuarial Accrued Liability (AAL)	$ 982,484
Unfunded AAL	$ 982,484
Funded Ratio	0%

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 2014.

Covered health care and dental care expenses were assumed to increase in future years based on the claims experience for fiscal years 2013 and 2014, and a trend assumption beginning at 7.5% for pre-Medicare retirees, 6.5% for post-Medicare retirees, 6.5% for dental benefits, and grading down to an ultimate rate of 4.5% in fiscal year 2021 and after. 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 3.5% 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 ended September 30, 2014, was $7,166, $1,547 and $200 for retirees under age 65; and $999, $1,578 and $200 for retirees over age 65.

The normal cost reflects the average age of the covered population and is based on claims experience for the fiscal years ended September 30, 2013 and 2014, with a two-thirds weighting applied to the more recent year.

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 adjusted to reflect the anticipated lag in claim payment. An administrative loading was added as well.

The West Indian Company Limited Employee Retirement Plan (the Plan) is a defined contribution retirement and savings plan sponsored by the Company, covering the Company's employees not governed by a collectible bargaining agreement. The Plan is administered by Weber Shapiro & Co. LLP.

Under the provisions of the Plan, the employees must contribute at least 3% of their gross compensation and may contribute up to 7% of their compensation. The Company matches 3% of the employees' contribution plus a non-elective distribution at the discretion of the Company, which is divided among eligible employees, proportionate compensation.

Required contributions to the pension and savings plan made and charged to operations were approximately $117,000 for the year ended September 30, 2014. Total contributions made to the Plan by the covered employees during 2014 amounted to $117,600. The Company does not offer other post-retirement benefits to its employees.

15. Liquidity

Governmental Activities

At September 30, 2014, the Government reported an unrestricted net deficit in governmental activities amounting to $2 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) increases in costs of operations, and 3) 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 2010 through 2014:

Fiscal Year	Governmental Unrestricted Net Deficit	(Increase)/ Decrease
2010	$ (1,408,601)	$ (297,730)
2011	(1,630,549)	(221,948)
2012	(1,697,066)	(66,517)
2013	(1,837,805)	140,739)
2014	(1,442,988)	394,817

The Government has initiated specific actions to improve its liquidity and future cash flows. The Government established the Office of Economic Opportunity 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, 2014, the Government reported a fund deficit in the General Fund of $87.7 million. This fund deficit balance represents a decrease in the General Fund balance of $5 million from the 2013 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 2014, 2013 and 2012:

Fiscal Year	Committed	Unassigned	Total
2012	$ 29,099	$ (8,649)	$ 20,450
2013	27,314	(120,026)	(92,712)
2014	12,126	(99,794)	(87,668)

16. Fund and Net Position Deficit

The following non-major funds have a fund or net position deficit as of September 30, 2014 (in thousands):

Governmental Funds

Rural Library Extension	$ 572	Water & Electric System Projects	$ 1,698
Employment Security Administration	2,378	Sewer System Fund	175
Federally Aided Education Program	9,594	District Potable Water Fund	4,962
Air & Water Pollution Control	7,184	Paternity And Child Support	11,872
VI Planning Board Projects	3,000	District Street Light Fund	16,499
Highway Safety	4,600	Virgin Islands Law Enforcement	4,534
Virgin Islands Energy Office	3,655	Forensic Science	74
Virgin Islands National Guard Federal		Vocational Rehabilitation	1,848
and State Agreement	2,756	Hurricane Hugo Insurance Claims	3,908
Food Stamp Welfare		Virgin Islands Army National Guard	2,266
Federal Programs/Department	2,433		
Conservation	4,367	Emergency Drought Relief	169
Federal Aided Community Action Agency	187	Outdoor Recreation Program	40
Commission On Aging	50	Narcotics Strike Force Forfeiture	2
Elementary/Secondary Education	19	Small Business Development	
Job Training Partnership	8,614	Administration Managerial And	
Act Of 1983-1984		Technical Assistance	8
Civil Defense Protection	849	Federal Grants For All Agencies	
Health Information Council Assistance	18	Except Dept Of Education	31
Drug Education Training Program	123	Juvenile Detention Center Fund	
Federal Health Program Not On Federal		Non-Lapsing	14
Letter Of Credit System	489	Natural Resource Reclamation	2,205
Boating Safety Program	583	Section 12 Bond Proceeds	31,449
Department of Education Federal			
Grants except ARRA	6,237	Road Fund	6,330
Tax Assessors Revolving Fund	57	PFA/Office Of Economic Opportunity	968
		Major Repair And Improvement	58
		Fund and net position deficit	$ 146,875

Proprietary Funds	
Frederiksted Small Business Fund	$ 47
Bureau Of Motor Vehicles	93
Government Insurance	27,965
Housing Construction Revolving	3,004
Emergency Housing Fund	82
Virgin Islands Lottery	2,974
Consumer Protection Fund	200
Virgin Islands Housing Finance Authority	3,000
Health Revolving Fund	4,381
Fund and net position deficit	$ 41,746

17. Restatements to Beginning Net Position/Deficit

Primary Government

Governmental Activities - Statement of Net Position

Beginning unrestricted net position of governmental activities in the government-wide financial statements was restated as follows (expressed in thousands):

	Net Position		
Governmental Activities	**As Previously Reported**	**Adjustments**	**As Restated**
Unrestricted net deficit	$ (1,362,595)	$ (121,474)	$ (1,484,069)

Governmental Funds – Balance Sheet

Beginning fund balances of the General Fund, PFA Debt Service Fund, Federal Grants Fund, and Other Governmental funds were restated as follows (expressed in thousands):

	Beginning Fund Balance		
Major and Non-Major Funds	**As Previously Reported**	**Adjustments**	**As Restated**
General Fund	$ (9,946)	$ (82,766)	$ (92,712)
PFA Debt Service Fund	276,429	(14,705)	261,724
PFA Capital Project Fund	106,767	–	106,767
Federal Grants Fund*	18,109	(8,183)	9,926
Other Governmental Funds*	56,934	148	57,082
Total fund balance	$ 448,293	$ (105,506)	$ 342,787

** Federal grants fund was included in the other governmental funds as of September 30, 2013.*

The adjustments to the governmental activities beginning unrestricted net deficit was to account for the effect of the adoption of GASB Statement No. 65. In previous years, cost of debt issuances was capitalized and amortized over the term of the related debt. This was previously presented as deferred charges and other assets line in the statement of net position.

In accordance with GASB Statement No. 65, the cost of debt issuance should be recorded as an expense in the fiscal year in which the debt was issued. The effect of the adoption of GASB Statement No. 65 resulted in a prior period adjustment of increased beginning unrestricted net deficit of $46.6 million.

In addition, the Government did not correctly apply advance refunding of long-term debt in accordance with GASB Statement No. 7, *Advance Refunding Resulting in Defeasance of Debt*. The correction of accounting error result in a prior period adjustment of decreased beginning unrestricted net deficit of $14.7 million. The Government had not recorded its capital assets additions in prior year which result to a prior period adjustment of increased beginning unrestricted net deficit of $15.9 million.

The cumulative effect of these adjustments to the beginning net deficit as of September 30, 2013 was $121 million, including prior period adjustments of $105.5 million for the governmental funds' beginning fund balances as described below.

Adjustments were also made to the governmental funds' beginning fund balances as of September 30, 2013 as follows (expressed in thousands):

General:	
Recording adjustment for general government expenses to equity in treasury account.	$ (61,577)
Unaccounted balance of inventory account.	3,058
Unrecorded income tax refunds payable.	(25,901)
Fund inadvertently omitted in the financial statements.	1,826
Write-off of prior year unaccounted loan receivable balance.	(172)
	(82,766)
PFA Debt Service:	
Accounting treatment of advance refunding of long-term debt in accordance with GASB Statement No. 7.	(14,705)
Federal Grants:	
Net unrecorded Medicaid claims and expenditures	(8,183)
Other Governmental:	
Other adjustment to reconcile beginning fund balance	148
	$ 105,506

Proprietary Funds – Statement of Net Position

Beginning net position (deficit) of the WICO and Other Enterprise funds were restated as follows (expressed in thousands):

	Beginning Net Position		
Major and Non-Major Funds	As Previously Reported	Adjustments	As Restated
WICO	$ 17,242	$ (51)	$ 17,191
Unemployment Insurance	(67,888)	–	(67,888)
Other Enterprise	14,083	(4,255)	9,828
Net position	$ (36,563)	$ (4,306)	$ (40,869)

Adjustments to WICO's beginning unrestricted fund deficit of $51 was to reconcile the beginning net position to WICO's stand-alone audited financial statements as of September 30, 2013. Net adjustments to other enterprise net position of $4.3 million pertain to correction of prior year entry to record modified accrual of $6.1 million offset with the V.I. Lottery loan receivables balance of $1.4 million and adjustment to correct adjustment to Government Insurance Fund of $0.4 million. The cumulative effect of these adjustments to the proprietary net position as of September 30, 2013 was $5.6 million.

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):

	Beginning Net Position		
Component Unit	As Previously Reported	Adjustments	As Restated
Virgin Islands Port Authority	$ 235,644	$ (336)	$ 235,308
Virgin Islands Water and Power Authority:			
Electric System	56,427	(8,344)	48,083
Water System	49,189	(36)	49,153
University of the Virgin Islands	79,839	(1,063)	78,776
Other component units	379,031	(19,784)	359,247
Net position	$ 800,130	$ (29,563)	$ 770,567

Adjustments to the component units' beginning net position was to account for the effects of the adoption of GASB Statement No. 65 for $17.6 million and adjustment to correct Virgin Islands Waste Management net position of $12 million. In previous years, cost of debt issuances was capitalized and amortized over the term of the related debt. In accordance with GASB Statement No. 65, the cost of debt issuance should be recorded as an expense in the fiscal year in which the debt was issued. The cumulative effect of the adoption of GASB Statement No. 65 and the adjustment resulted in a prior period adjustment of increased beginning unrestricted net deficit totaling $29.6 million.

Pension Trust Fund - Statement of Net Position

Subsequent to the year ended September 30, 2013, it was determined that the fiscal year 2013 appraisal for Carambola N.W. LLC was overstated by $9.9 million. The resulting downward adjustment has been reported as an adjustment to by restating September 30, 2013 financials as follows (expressed in thousands):

Plan Fiduciary	**Beginning Plan fiduciary Net position**		
Pension Trust Fund	**As Previously Reported**	**Adjustments**	**As Restated**
Net deficit	$ 1,252,509	$ (9,900)	$ 1,242,609

18. Subsequent Events

Primary Government

On November 12, 2014, WICO finalized an interim financing agreement to procure a loan with Banco Popular de Puerto Rico. The agreement provides for a loan in the amount of $3.75 million bearing interest at 6.75% per annum. The loan has an interest-only period of twelve (12) months from the issue date. Additionally, the payments are based on a twenty-five (25) year amortization, with a final maturity in six (6) years. This interim financing provides funding for a new pier on the island of St. Thomas.

On November 14, 2014, PFA issued the Series 2014C Revenue and Refunding Bonds amounting to $247.05 million. The bonds are secured by the pledge of gross receipts tax revenues. The Series 2014C Revenue and Refunding Bonds were issued to: (i) refund the outstanding Series 2003A Bonds, (ii) finance all or a portion of the costs of certain capital projects for the PG and for hospitals within the Territory, and (iii) pay the costs of issuing the Series 2014C Bonds. The Series 2014C Bonds mature from 2015 to 2044 at interest rates of 4.50% to 5.0%.

On December 1, 2014, PFA entered into an irrevocable standby letter of credit in favor of Delta Airlines, Inc. amounting to $650 thousand with First Bank Puerto Rico. The letter of credit was established under a Revenue Guarantee Agreement (Agreement) between Delta Airlines, In. and the U.S. Virgin Islands of Tourism as part of an agreement for Delta Airlines, Inc. to continue flights to the island of St. Croix through August 2015.

On December 3, 2014, PFA issued the Series 2014D Revenue Bonds amounting to $5.76 million secured by a pledge of gross receipts taxes. The bonds were issued to: (i) finance certain costs associated with the viNGN broadband initiative, (ii) finance certain debt service reserves in connection with the bond issuance, and (iii) pay the costs of issuance of the 2014D Revenue Bonds. The bonds mature in 2033, with an interest rate of 6.03%.

On December 4, 2014, PFA issued the Series 2014E Subordinate Lien Revenue Anticipation Notes (Virgin Islands Gross Receipts Taxes Loan Note) in the amount of $40 million (the 2014 E Notes).

The purpose of the 2014E Notes was to provide a loan to the PG to: (i) provide for operating and other expenses of the PG and (ii) pay the costs of issuance of the Series 2014E Notes.

On December 19, 2014, Congress enacted the Tax Increase Prevention Act of 2014. This Act legislated an extension of the (matching funds) rum excise tax cover over rate of $13.25 per proof gallon through January 1, 2015.

On December 29, 2014, the owners of HOVENSA, Inc. filed lawsuits for the payment of income tax refunds amounting to $236 million for tax years 2006, 2007 and 2008. The company experienced operating taxable losses in tax years 2008 and 2009, and filed amended returns for the previous three years utilizing net operating losses. The PG has an ongoing lawsuit with HOVENSA, Inc. related to natural resource damages related to the oil refining operation and has an outstanding settlement with the company for $43.5 million in unpaid damages.

Component Units

As of January 1, 2015, the Retirement system imposed increased contributions for the Water and Power Authority Electric System and its employees.

On November 30, 2014, the Water and Power Authority Electric System and the vendor for the temporary mobile power plant, extended a lease agreement through November 2016 for $13.2 million.

In November 2014, the budget for the Water and Power Authority Electric System's for the propane conversion project was updated to approximately $150 million based on updated engineering estimates. Vitol and the Authority agreed to share the increased costs.

The University of the Virgin Islands' Board of Trustees approved the creation of a Liaison Committee on Medical Education (LCME) accredited medical school and, if successful, the University's School of Medicine would be the only English speaking accredited medical school in the Caribbean. The University submitted its application for accreditation in November 2014 and the accreditation agency is planning a site visit during the summer of 2015.

The University pursued a loan through the U.S. Department of Education's HBCU Capital Financing Program for construction of the Medical School facilities. On February 27, 2015, the University entered into a capital project loan agreement (loan agreement). Under the loan agreement, the University can request advances up to $19 million. The loan agreement has serial maturity dates through December 1, 2044. Interest payments are due on February and August. Interest will be calculated based on US Treasury yields prevailing at the date of each advancement plus 22.5 basis points.

In October 2014, the Virgin Islands Port Authority (VIPA) issued $48.6 million in bonds which comprised $28.8 million in 2014 Marine Revenue and Refunding Bonds, $14.9 million in 2014B Marine Revenue and Refunding Bonds and $4.9 million in 2014 C Marine Revenue Bonds.

The proceeds of the 2014 Bonds, together with certain other available funds of VIPA, will be used for: (i) refunding $24.5 million in 2003 Series A Marine Revenue Bonds and pay off the 2003 Series bonds; (ii) for the financing of various capital projects; (iii) to fund a deposit to the debt service fund; (iv) to fund a deposit to the operation, maintenance, renewal and replacement reserve account; and (v) to pay the cost of issuance of the 2014 Bonds.

Management's Evaluation

Management has evaluated any events or transactions occurring after September 30, 2014, the statement of net position date through September 30, 2015, the date the financial statements were available to be issued, and noted that there have been no additional events or transactions which would require adjustments to or disclosure in the Government's financial statements for the year ended September 30, 2014.

Required
Supplementary Information

Government of the United States Virgin Islands

Schedule of Funding Progress

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)
Pension Plan						
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	1,237,213,473	1,843,251,472	3,080,500,000	40.16%	370,131,865	498.00%
2014	1,154,728,837	1,973,620,038	3,128,348,875	36.91%	355,603,633	555.01%

* For these years, the AAL was estimated based on projecting the AAL from the last completed actuarial valuation

Actuarial Methods and Assumptions

The comparability of trend information, shown 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, 2014
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.

Schedule of Funding Progress

Postemployment Benefits Other Than Pensions

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	$ –	$ 982,484,000	$ 982,484,000	–	$298,873,000	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
9/30/2014	$ 65,247,000	47.77%	$ 319,056,000

Government of the United States Virgin Islands

Schedule of Employer Contributions

Plan Year Ended September 30,	Actuarially Determined Employer Contributions	Actual Contributions	Percentage Contributed
2009	$ 147,490,851	$ 80,177,004	54.36%
2010	$ 157,817,709	$ 77,004,630	48.79%
2011	$ 162,841,336	$ 80,849,762	49.65%
2012	$ 178,644,349	$ 66,677,155	37.32%
2013	$ 172,439,842	$ 64,431,322	37.36%
2014	$ 189,715,251	$ 68,298,617	36.00%

Government of the United States Virgin Islands

Schedule of Revenues and Expenditures – Budget and Actual
Budgetary Basis – General Fund
(in thousands)

Year Ended September 30, 2014	Original Budget	Revised Budget	Actual	Variance
Revenues:				
Taxes	$ 501,800	$ 501,800	$ 664,170	$ (162,370)
Federal grants and contributions	–	–	13,780	(13,780)
Charges for services	13,998	13,998	8,308	5,690
Interest and other	90,555	90,555	20,220	70,335
Total revenues	606,353	606,353	706,478	(100,125)
Expenditures:				
Current:				
General government	508,182	522,075	483,923	38,152
Public safety	101,802	101,802	58,100	43,702
Health	91,580	91,580	32,209	59,371
Public housing and welfare	76,742	78,367	62,203	16,164
Education	159,146	160,846	183,069	(22,223)
Transportation and communication	32,063	32,808	19,440	13,368
Culture and recreation	18,973	19,013	7,343	11,670
Total expenditures	988,488	1,006,491	846,287	160,204
Deficiency of revenues over expenditures	(382,135)	(400,138)	(139,809)	(260,329)
Other financing sources (uses):				
Bonds issued	–	–	46,873	(46,873)
Loans issued	–	–	54,000	(54,000)
Debt service:				–
Principal	–	–	(41,106)	41,106
Interest			(2,125)	2,125
Transfers from other funds	100,554	100,554	106,139	(5,585)
Transfer to other funds	(1,112)	(1,112)	(9,438)	8,326
Total other financing sources, net	99,442	99,442	154,343	(54,901)
Excess (deficiency) of revenues and net other financing sources over expenditures	$ (282,693)	$ (300,696)	$ 14,534	$ (315,230)

See accompanying notes to financial statements.

Notes to Schedule of Revenues and Expenditures – Budget and Actual Budgetary Basis – General Fund

1. 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 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.

2. 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, 2014 is presented below (expressed in thousands):

Deficiency of revenues and net other financing sources over expenditures	$ (315,230)
Entity difference – deficiency of revenues and net other financing over expenditures – activities with budgets not legally adopted	320,274
Excess of revenues and net other financing sources over expenditures – GAAP basis (net change in fund balance)	$ 5,044

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.