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

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

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United States Virgin Islands

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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:

	Governmental Activities		Business-Type Activities		Total	
September 30,	2014	2013	2014	2013	2014	2013
		(As restated)		*(As restated)*		*(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

Government of the United States Virgin Islands

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	Primary Government Business-type Activities	Primary Government 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)

Year Ended September 30, 2014	***Expenses***	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Position — Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: 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.

Statement of Activities

(in thousands)

	Net Revenue (Expense) and Changes in Net Position			
	Primary Government			
Year Ended September 30, 2014	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)

	Business-type Activities – Enterprise Funds			
September 30, 2014	**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.

Statement of Cash Flows – Proprietary Funds

(in thousands)

	Business-type Activities – Enterprise Funds			
Year Ended September 30, 2014	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.

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 Housing Authority	Virgin Islands Port Authority	Virgin Islands Water and Power Authority: Electric System	Virgin Islands Water and Power Authority: Water System	Hospital and Health Facilities Corporation: Roy L. Schneider Hospital	Hospital and Health Facilities Corporation: 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

		Program revenue			
Information on Statements of Activities	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**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):

	Fair Value	Maturity (in years) 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):

		Maturity (in years)			
	Fair Value	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.

Government of the United States Virgin Islands

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.

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.

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards and Reports Required by *Government Auditing Standards* and OMB Circular A-133

Year Ended September 30, 2014

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards and Reports Required by *Government Auditing Standards* and OMB Circular A-133

Year Ended September 30, 2014

Government of the United States Virgin Islands

Contents

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements, and have issued our report thereon dated September 30, 2015. We expressed a qualified opinion on the financial statements of the governmental activities, general fund, and aggregate discretely-presented component units opinion units based on the circumstances noted in our aforementioned report. In addition, we expressed a disclaimer of opinion on the financial statements of the business type activities, unemployment insurance-enterprise fund, and aggregate remaining fund information opinion units based on the circumstances described in our aforementioned report.

Our aforementioned report includes references to other auditors who audited the financial statements of the Tobacco Settlement Financing Corporation (TSFC), Virgin Islands Public Finance Authority (VIPFA), 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), Virgin Islands Housing Finance Authority (VIHFA), Employees' Retirement System of the Government of the Virgin Islands (GERS), and Virgin Islands Lottery (V.I. Lottery) as described in our report on the Government's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. We audited the financial statements of the Virgin Islands Water and Power Authority (WAPA) and the Virgin Islands Port Authority (VIPA). This report does not include the results of our testing of internal control over financial reporting or compliance and other matters for WAPA and VIPA which is reported on separately by us. 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*.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in greater detail in the accompanying schedule of findings and questioned costs as items 2014-001 through 2014-012, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies identified below and described in greater detail in the accompanying schedule of findings and questioned costs as items 2014-001 through 2014-008 to be material weaknesses.

- Year-End Close Process
- Bank Accounts
- Tax Revenue and Receivables
- Grants Management
- Capital Assets and Related Expenditures
- Recording of Liabilities
- Management of the Medicaid Program
- Unemployment Insurance Trust Fund

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies identified below and described in greater detail in the accompanying schedule of findings and questioned costs as items 2014-009 through 2014-012 to be significant deficiencies.

- Pension Plan Obligations
- Payroll, Related Accruals, and Other Expenditures
- Workers Compensation Program
- Information Technology Environment

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as identified below and described in greater detail in the accompanying schedule of findings and questioned costs as items 2014-013 and 2014-014.

- Collateralizing Deposits
- Budgetary Compliance

The Government's Responses to Findings

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

Purpose of this Report

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

BDO USA, LLP

September 30, 2015

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Independent Auditor's Report on Compliance For Each Major Federal Program, Report on Internal Control Over Compliance, and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A 133

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

Report on Compliance for Each Major Federal Program

We have audited the Government of the United States Virgin Island's (the Government) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Government's major Federal programs for the year ended September 30, 2014. The Government's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The Government's basic financial statements include the operations of the Tobacco Settlement Financing Corporation (TSFC), Virgin Islands Public Finance Authority (VIPFA), 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), Virgin Islands Housing Finance Authority (VIHFA), Employees' Retirement System of the Government of the Virgin Islands (GERS), and Virgin Islands Lottery (V.I. Lottery). The accompanying Schedule of Expenditures of Federal Awards and our audit described below do not include the Federal expenditures of these organizational units. As may be applicable, these organizational units of the Government have a separate independent audit performed in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The accompanying Schedule of Expenditures of Federal Awards and our audit described below also do not include the Federal expenditures of the Virgin Islands Water and Power Authority (WAPA) and the Virgin Islands Port Authority (VIPA). The results of our testing of compliance for WAPA and VIPA is reported on separately by us.

Management's Responsibility

Management is responsible for compliance with the requirements of Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Government's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the Government's compliance.

Basis for Adverse Opinion on CFDA 93.558 and CFDA 93.558 ARRA Temporary Assistance for Needy Families (TANF) and CFDA 93.778 and CFDA 93.778 ARRA Medical Assistance Program

As described in the accompanying schedule of findings and questioned costs, and as listed below, the Government did not comply with requirements regarding the following for CFDA 93.558 and CFDA 93.558 ARRA Temporary Assistance for Needy Families (TANF) and CFDA 93.778 and CFDA 93.778 ARRA Medical Assistance Program. Compliance with such requirements is necessary, in our opinion, for the Government to comply with requirements applicable to those programs.

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2014-018	93.558/ 93.558 – ARRA	Temporary Assistance for Needy Families	Activities Allowed or Unallowed
2014-019	93.558/ 93.558 – ARRA	Temporary Assistance for Needy Families	Cash Management
2014-020	93.558/ 93.558 – ARRA	Temporary Assistance for Needy Families	Eligibility
2014-021	93.558/ 93.558 – ARRA	Temporary Assistance for Needy Families	Reporting
2014-022	93.558/ 93.558 – ARRA	Temporary Assistance for Needy Families	Special Tests and Provisions - Child Support Non-Cooperation
2014-023	93.558/ 93.558 – ARRA	Temporary Assistance for Needy Families	Special Tests and Provisions - Penalty for Refusal to Work
2014-024	93.558/ 93.558 – ARRA	Temporary Assistance for Needy Families	Special Tests and Provisions - Penalty for Failure to Comply with Work Verification Plan
2014-025	93.558/ 93.558 – ARRA	Temporary Assistance for Needy Families	Special Tests and Provisions - Income Eligibility and Verification System
2014-029	93.778/ 93.778 – ARRA	Medical Assistance Program	Activities Allowed or Unallowed
2014-030	93.778/ 93.778 – ARRA	Medical Assistance Program	Allowable Costs/Cost Principles - Recoveries, Refunds, and Rebates

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2014-031	93.778/ 93.778 – ARRA	Medical Assistance Program	Cash Management
2014-032	93.778/ 93.778 – ARRA	Medical Assistance Program	Reporting
2014-033	93.778/ 93.778 – ARRA	Medical Assistance Program	Special Tests and Provisions - Utilization Control & Program Integrity
2014-034	93.778/ 93.778 – ARRA	Medical Assistance Program	Special Tests and Provisions - Medicaid Fraud Control Unit (MFCU)
2014-035	93.778/ 93.778 – ARRA	Medical Assistance Program	Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits
2014-036	93.778/ 93.778 – ARRA	Medical Assistance Program	Special Tests and Provisions - ADP Risk Analysis and System Security Review
2014-037	93.778/ 93.778 – ARRA	Medical Assistance Program	Special Tests and Provisions - Provider Eligibility

Adverse Opinion on CFDA 93.558 and CFDA 93.558 ARRA Temporary Assistance for Needy Families (TANF) and CFDA 93.778 and CFDA 93.778 ARRA Medical Assistance Program

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the Government did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 93.558 and CFDA 93.558 ARRA Temporary Assistance for Needy Families (TANF) and CFDA 93.778 and CFDA 93.778 ARRA Medical Assistance Program for the year ended September 30, 2014.

Basis for Qualified Opinion on CFDA 93.600 Head Start, CFDA 11.419 Coastal Zone Management Administration Awards, CFDA 15.875 Economic, Social, and Political Development of the Territories, and CFDA 10.555/10.556/10.559 Child Nutrition Cluster

As described in the accompanying schedule of findings and questioned costs, and as listed below, the Government did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2014-027	93.600	Head Start	Davis-Bacon Act
2014-039	11.419	Coastal Zone Management Administration Awards	Activities Allowed or Unallowed
2014-040	11.419	Coastal Zone Management Administration Awards	Allowable Costs/Cost Principles - Payroll Activities
2014-041	11.419	Coastal Zone Management Administration Awards	Equipment and Real Property Management

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2014-042	11.419	Coastal Zone Management Administration Awards	Matching, Level of Effort, and Earmarking
2014-043	11.419	Coastal Zone Management Administration Awards	Procurement, Suspension, and Debarment
2014-052	15.875	Economic, Social, and Political Development of the Territories	Davis-Bacon Act
2014-055	10.555/ 10.556/ 10.559	Child Nutrition Cluster	Activities Allowed or Unallowed
2014-057	10.555/ 10.556/ 10.559	Child Nutrition Cluster	Allowable Costs/Cost Principles – Non-payroll Activities
2014-058	10.555/ 10.556/ 10.559	Child Nutrition Cluster	Allowable Costs/Cost Principles - Indirect Costs Activities

Compliance with such requirements is necessary, in our opinion, for the Government to comply with the requirements applicable to those programs.

Qualified Opinion on CFDA 93.600 Head Start, CFDA 11.419 Coastal Zone Management Administration Awards, CFDA 15.875 Economic, Social, and Political Development of the Territories, and CFDA 10.555/10.556/10.559 Child Nutrition Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Government complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 93.600 Head Start, CFDA 11.419 Coastal Zone Management Administration Awards, CFDA 15.875 Economic, Social, and Political Development of the Territories, and CFDA 10.555/10.556/10.559 Child Nutrition Cluster for the year ended September 30, 2014.

Basis for Qualified Opinion on CFDA 17.225 Unemployment Insurance

As described in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient appropriate audit evidence supporting the compliance of the Government with CFDA 17.225 Unemployment Insurance as described in finding 2014-054 for Activities Allowed or Unallowed. Consequently, we were unable to determine whether the Government complied with those requirements applicable to that program.

Qualified Opinion on CFDA 17.225 Unemployment Insurance

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Government complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 17.225 Unemployment Insurance for the year ended September 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Government complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major Federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs, and as listed below. Our opinion on each major Federal program is not modified with respect to these matters.

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2014-015	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Cash Management
2014-016	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Equipment and Real Property Management
2014-017	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Matching, Level of Effort, and Earmarking
2014-026	93.600	Head Start	Cash Management
2014-028	93.600	Head Start	Equipment and Real Property Management
2014-044	11.482	Coral Reef Conservation Program	Allowable Costs/Cost Principles - Payroll Activities
2014-045	11.482	Coral Reef Conservation Program	Matching, Level of Effort, and Earmarking
2014-046	93.563	Child Support Enforcement	Allowable Costs/Cost Principles - Payroll Activities
2014-047	93.563	Child Support Enforcement	Cash Management
2014-048	93.563	Child Support Enforcement	Equipment and Real Property Management
2014-049	12.401	National Guard Military Operations and Maintenance (O&M) Projects	Reporting
2014-050	20.205	Highway Planning and Construction	Cash Management
2014-051	15.875	Economic, Social, and Political Development of the Territories	Cash Management
2014-053	15.875	Economic, Social, and Political Development of the Territories	Equipment and Real Property Management

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2014-059	10.555/ 10.556/ 10.559	Child Nutrition Cluster	Cash Management
2014-060	10.555/ 10.556/ 10.559	Child Nutrition Cluster	Equipment and Real Property Management
2014-061	10.555/ 10.556/ 10.559	Child Nutrition Cluster	Procurement, Suspension, and Debarment
2014-063	10.555/ 10.556/ 10.559	Child Nutrition Cluster	Special Tests and Provisions - Accountability for USDA-Donated Foods

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

Report on Internal Control Over Compliance

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

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

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

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2014-015	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Cash Management
2014-016	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Equipment and Real Property Management
2014-018	93.558/ 93.558-ARRA	Temporary Assistance for Needy Families	Activities Allowed or Unallowed
2014-019	93.558/ 93.558-ARRA	Temporary Assistance for Needy Families	Cash Management
2014-020	93.558/ 93.558-ARRA	Temporary Assistance for Needy Families	Eligibility
2014-021	93.558/ 93.558-ARRA	Temporary Assistance for Needy Families	Reporting
2014-025	93.558/ 93.558-ARRA	Temporary Assistance for Needy Families	Special Tests and Provisions - Income Eligibility and Verification System
2014-026	93.600	Head Start	Cash Management
2014-027	93.600	Head Start	Davis-Bacon Act
2014-028	93.600	Head Start	Equipment and Real Property Management
2014-029	93.778/ 93.778 - ARRA	Medical Assistance Program	Activities Allowed or Unallowed
2014-030	93.778/ 93.778 - ARRA	Medical Assistance Program	Allowable Costs/Cost Principles - Recoveries, Refunds, and Rebates
2014-031	93.778/ 93.778 - ARRA	Medical Assistance Program	Cash Management
2014-033	93.778/ 93.778 - ARRA	Medical Assistance Program	Special Tests and Provisions - Utilization Control & Program Integrity
2014-034	93.778/ 93.778 - ARRA	Medical Assistance Program	Special Tests and Provisions - Medicaid Fraud Control Unit (MFCU)
2014-035	93.778/ 93.778 - ARRA	Medical Assistance Program	Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits
2014-036	93.778/ 93.778 - ARRA	Medical Assistance Program	Special Tests and Provisions - ADP Risk Analysis and System Security Review

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2014-037	93.778/ 93.778 - ARRA	Medical Assistance Program	Special Tests and Provisions - Provider Eligibility
2014-041	11.419	Coastal Zone Management Administration Awards	Equipment and Real Property Management
2014-047	93.563	Child Support Enforcement	Cash Management
2014-048	93.563	Child Support Enforcement	Equipment and Real Property Management
2014-050	20.205	Highway Planning and Construction	Cash Management
2014-051	15.875	Economic, Social, and Political Development of the Territories	Cash Management
2014-052	15.875	Economic, Social, and Political Development of the Territories	Davis-Bacon Act
2014-053	15.875	Economic, Social, and Political Development of the Territories	Equipment and Real Property Management
2014-054	17.225	Unemployment Insurance	Activities Allowed or Unallowed
2014-055	10.555/ 10.556/ 10.559	Child Nutrition Cluster	Activities Allowed or Unallowed
2014-060	10.555/ 10.556/ 10.559	Child Nutrition Cluster	Equipment and Real Property Management
2014-061	10.555/ 10.556/ 10.559	Child Nutrition Cluster	Procurement, Suspension, and Debarment
2014-063	10.555/ 10.556/ 10.559	Child Nutrition Cluster	Special Tests and Provisions - Accountability for USDA-Donated Foods

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, and as listed below, to be significant deficiencies:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2014-017	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Matching, Level of Effort, and Earmarking
2014-022	93.558/ 93.558- ARRA	Temporary Assistance for Needy Families	Special Tests and Provisions - Child Support Non-Cooperation
2014-023	93.558/ 93.558- ARRA	Temporary Assistance for Needy Families	Special Tests and Provisions - Penalty for Refusal to Work

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2014-024	93.558/ 93.558-ARRA	Temporary Assistance for Needy Families	Special Tests and Provisions - Penalty for Failure to Comply with Work Verification Plan
2014-032	93.778	Medical Assistance Program	Reporting
2014-039	11.419	Coastal Zone Management Administration Awards	Activities Allowed or Unallowed
2014-040	11.419	Coastal Zone Management Administration Awards	Allowable Costs/Cost Principles - Payroll Activities
2014-042	11.419	Coastal Zone Management Administration Awards	Matching, Level of Effort, and Earmarking
2014-043	11.419	Coastal Zone Management Administration Awards	Procurement, Suspension, and Debarment
2014-044	11.482	Coral Reef Conservation Program	Allowable Costs/Cost Principles - Payroll Activities
2014-045	11.482	Coral Reef Conservation Program	Matching, Level of Effort, and Earmarking
2014-046	93.563	Child Support Enforcement	Allowable Costs/Cost Principles - Payroll Activities
2014-049	12.401	National Guard Military Operations and Maintenance (O&M) Projects	Reporting
2014-057	10.555/ 10.556/ 10.559	Child Nutrition Cluster	Allowable Costs/Cost Principles – Non-payroll Activities
2014-058	10.555/ 10.556/ 10.559	Child Nutrition Cluster	Allowable Costs/Cost Principles - Indirect Costs Activities
2014-059	10.555/ 10.556/ 10.559	Child Nutrition Cluster	Cash Management

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

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements. We issued our report thereon dated September 30, 2015, which expressed a qualified opinion on the financial statements of the governmental activities, general fund, and aggregate discretely-presented component units opinion units based on the circumstances noted in our aforementioned report.

In addition, we expressed a disclaimer of opinion on the financial statements of the business type activities, unemployment insurance-enterprise fund, and aggregate remaining fund information opinion units based on the circumstances described in our aforementioned report. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the Schedule of Expenditures of Federal Awards of the circumstances noted above, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BDO USA, LLP

November 30, 2015

Schedule of Expenditures of Federal Awards

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal Grantor Grantor/ Program or Cluster Title	*Federal CFDA Number*		*Federal Expenditures*
U.S. Department of Agriculture			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	$	99,448
Specialty Crop Block Grant Program - Farm Bill	10.170		29,985
Child Nutrition Cluster			
National School Lunch Program	10.555		3,405,144
Special Milk Program for Children	10.556		3,279,119
Summer Food Service Program for Children	10.559		752,671
Total Child Nutrition Cluster			7,436,934
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557		6,714,199
Child and Adult Care Food Program	10.558		1,180,426
State Administrative Expenses for Child Nutrition	10.560		277,003
SNAP Cluster			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		60,760,726
Food Distribution Cluster			
Emergency Food Assistance Program (Administrative Costs)	10.568		28,487
Fresh Fruit and Vegetable Program	10.582		30,234
Cooperative Forestry Assistance	10.664		204,985
Urban and Community Forestry Program	10.675		68,422
Forest Legacy Program	10.676		1,281,086
Forest Stewardship Program	10.678		58,248
Total U.S. Department of Agriculture			78,170,183

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal Grantor *Grantor/ Program or Cluster Title*	*Federal CFDA Number*	*Federal Expenditures*
U.S. Department of Health and Human Services		
Special Programs for the Aging-Title VII, Chapter 3		
Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	41,506
Special Programs for the Aging-Title VII, Chapter 2		
Long Term Care Ombudsman Services for Older Individuals	93.042	43,108
Aging Cluster		
Special Programs for the Aging-Title III, Part B		
Grants for Supportive Services and Senior Centers	93.044	566,024
Special Programs for the Aging-Title III, Part C		
Nutrition Services	93.045	2,199,654
Nutrition Services Incentive Program	93.053	232,311
Total Aging Cluster		2,997,989
Special Programs for the Aging-Title IV-and		
Title II-Discretionary Projects	93.048	81,961
National Family Caregiver Support, Title III, Part E	93.052	235,196
Hospital Preparedness Program (HPP) and Public Health		
Emergency Preparedness (PHEP) Aligned		
Cooperative Agreements	93.074	462,755
Affordable Care Act (ACA) Personal Responsibility		
Education Program	93.092	218,729
Maternal and Child Health Federal Consolidated Programs	93.110	68,337
Project Grants and Cooperative Agreements for		
Tuberculosis Control Programs	93.116	141,347
Emergency Medical Services for Children	93.127	80,481
Cooperative Agreements to States/Territories for the		
Coordination and Development of Primary Care Offices	93.130	112,860
Injury Prevention and Control Research and State and		
Community Based Programs	93.136	14,236
AIDS Education and Training Centers	93.145	401
Projects for Assistance in Transition from Homelessness		
(PATH)	93.150	84,590

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal Grantor *Grantor/ Program or Cluster Title*	*Federal* *CFDA* *Number*	*Federal* *Expenditures*
U.S. Department of Health and Human Services (continued)		
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	1,237
Family Planning-Services	93.217	855,139
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	628,353
Universal Newborn Hearing Screening	93.251	172,725
Rural Access to Emergency Devices Grant and Public Access to Defibrillation Demonstration Grant	93.259	58,584
Immunization Cooperative Agreements	93.268	1,364,214
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	229,989
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	599,001
Affordable Care Act (ACA) – Consumer Assistance Program Grants	93.519	92,206
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	93.521	4,727
Promoting Safe and Stable Families	93.556	302,506
TANF Cluster		
Temporary Assistance for Needy Families	93.558	3,385,663
ARRA - Temporary Assistance for Needy Families	93.558	435
Total TANF Cluster		3,386,098
Child Support Enforcement	93.563	4,809,382
Low-Income Home Energy Assistance	93.568	546,296
Community Services Block Grant	93.569	1,455,115
CCDF Cluster		
Child Care and Development Block Grant	93.575	1,938,826

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal Grantor *Grantor/ Program or Cluster Title*	*Federal* *CFDA* *Number*	*Federal* *Expenditures*
U.S. Department of Health and Human Services (continued)		
Head Start	93.600	9,828,389
Developmental Disabilities Basic Support and Advocacy Grants	93.630	399,505
Children's Justice Grants to States	93.643	19,019
Stephanie Tubbs Jones Child Welfare Services Program	93.645	209,865
Social Services Block Grant	93.667	176,672
Child Abuse and Neglect State Grants	93.669	58,167
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671	246,867
ARRA - Advance Interoperable Health Information Technology Services to Support Health Information Exchange	93.719	330,815
Medicaid Cluster		
Medical Assistance Program	93.778	29,114,582
ARRA - Medical Assistance Program	93.778	22,343
Total Medicaid Cluster		29,136,925
Reimbursement of State Costs for Provision for Part D Drugs	93.794	247,754
Health Care and Other Facilities	93.887	345,659
HIV Care Formula Grants	93.917	1,393,619
HIV Prevention Activities-Health Department Based	93.940	558,764
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	149,794
Block Grants for Community Mental Health Services	93.958	131,190
Block Grants for Prevention and Treatment of Substance Abuse	93.959	1,481,300
Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977	215,547
Preventive Health and Health Services Block Grant	93.991	121,614
Maternal and Child Health Services Block Grant to the States	93.994	622,061
Total U.S. Department of Health and Human Services		66,701,420

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal Grantor *Grantor/ Program or Cluster Title*	*Federal* *CFDA* *Number*	*Federal* *Expenditures*
U.S. Department of Transportation		
Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	24,795,707
National Motor Carrier Safety	20.218	207,151
Federal Transit Cluster		
Federal Transit - Capital Investment Grants	20.500	1,441,601
Federal Transit - Formula Grants	20.507	1,170,502
Total Federal Transit Cluster		2,612,103
Transit Services Programs Cluster		
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	1,820,208
Highway Safety Cluster		
State and Community Highway Safety	20.600	565,080
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	8,100
Total U.S. Department of Transportation		30,008,349
U.S. Department of Labor		
Labor Force Statistics	17.002	37,426
Compensation and Working Conditions	17.005	350,515
Employment Service Cluster		
Employment Service/Wagner-Peyser Funded Activities	17.207	1,373,967
Unemployment Insurance	17.225	23,228,241
Senior Community Service Employment Program	17.235	1,048,551
WIA Cluster		
WIA/WIOA Adult Program	17.258	1,010,300
WIA/WIOA Youth Activities	17.259	800,518
Total WIA Cluster		1,810,818

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal Grantor *Grantor/ Program or Cluster Title*	*Federal* *CFDA* *Number*	*Federal* *Expenditures*
U.S. Department of Labor (continued)		
Work Opportunity Tax Credit Program (WOTC)	17.271	69,207
WIOA National Dislocated Worker Grants / WIA National Emergency Grants	17.277	1,093,568
Occupational Safety and Health-State Program	17.503	190,076
Employment Service Cluster		
Disabled Veterans' Outreach Program (DVOP)	17.801	37,657
Local Veteran's Employment Representative Program	17.804	8,713
Total Employment Service Cluster		46,370
Total U.S. Department of Labor		29,248,739
U.S. Department of Education		
Special Education Cluster (IDEA)		
Special Education - Grants to States	84.027	8,674,433
Impact Aid	84.041	68,295
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	2,659,141
Independent Living - State Grants Program	84.169	38,283
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177	70,583
Special Education - Grants for Infants and Families	84.181	1,090,802
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187	50,250
Territories and Freely Associated States Education Grant Program	84.256	1,316,964
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	17,104
Striving Readers	84.371	252,098
Statewide Longitudinal Data Systems	84.372	216,918
ARRA - Consolidated Grant to the Outlying Areas, Recovery Act	84.402	7,824
Consolidated Grant to the Outlying Areas	84.403	13,675,781
Total U.S. Department of Education		28,138,476

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal Grantor *Grantor/ Program or Cluster Title*	*Federal CFDA Number*	*Federal Expenditures*
U.S. Department of the Interior		
Fish and Wildlife Cluster		
Sport Fish Restoration Program	15.605	1,430,114
Wildlife Restoration and Basic Hunter Education	15.611	266,015
Total Fish and Wildlife Cluster Total		1,696,129
Enhanced Hunter Education and Safety Program	15.626	40,904
Partners for Fish and Wildlife	15.631	8,427
State Wildlife Grants	15.634	170,754
Economic, Social, and Political Development of the Territories	15.875	5,045,222
Historic Preservation Fund Grants-In-Aid	15.904	180,482
Total U.S. Department of the Interior		7,141,918
U.S. Department of Defense		
National Guard Military Operations and Maintenance (O&M) Projects	12.401	4,820,990
U.S. Environmental Protection Agency		
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034	14,052
State Clean Diesel Grant Program	66.040	6
ARRA - Construction Grants for Wastewater Treatment Works	66.418	751,034
Water Quality Management Planning	66.454	43,066
Drinking Water State Revolving Fund Cluster		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	815,322
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	433,807
Beach Monitoring and Notification Program Implementation Grants	66.472	156,460
Water Protection Grants to the States	66.474	12,089

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal Grantor *Grantor/ Program or Cluster Title*	*Federal* *CFDA* *Number*	*Federal* *Expenditures*
U.S. Environmental Protection Agency (continued)		
Performance Partnership Grants	66.605	1,687,935
Underground Storage Tank Prevention, Detection and Compliance Program	66.804	97,557
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	187,944
State and Tribal Response Program Grants	66.817	90,903
Total U.S. Environmental Protection Agency		4,290,175
U.S. Department of Homeland Security		
Boating Safety Financial Assistance	97.012	878,756
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	851,859
ARRA - Hazard Mitigation Grant	97.039	593,181
Emergency Management Performance Grants	97.042	592,667
Cooperating Technical Partners	97.045	17,624
Homeland Security Grant Program	97.067	800,741
Driver's License Security Grant Program	97.089	193,771
Total U.S. Department of Homeland Security		3,928,599
U.S. Department of Justice		
Sexual Assault Services Formula Program	16.017	33,352
Juvenile Accountability Block Grants	16.523	69,730
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	79,458
Crime Victim Assistance	16.575	347,640
Crime Victim Compensation	16.576	19,887
Violence Against Women Formula Grants	16.588	304,596
ARRA - Violence Against Women Formula Grants	16.588	1,249
Residential Substance Abuse Treatment for State Prisoners	16.593	45,272
State Criminal Alien Assistance Program	16.606	212,402
Public Safety Partnership and Community Policing Grants	16.710	888,967
Enforcing Underage Drinking Laws Program	16.727	145,945

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal Grantor *Grantor/ Program or Cluster Title*	*Federal* *CFDA* *Number*	*Federal* *Expenditures*
U.S. Department of Justice (continued)		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	545,897
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.738	172,170
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	23,724
Support for Adam Walsh Act Implementation Grant Program	16.750	194,936
Total U.S. Department of Justice		3,085,225
U.S. Department of Commerce		
Economic Development Cluster		
Economic Adjustment Assistance	11.307	145,107
Interjurisdictional Fisheries Act of 1986	11.407	363
Coastal Zone Management Administration Awards	11.419	946,866
Financial Assistance for National Centers for Coastal Ocean Science	11.426	15,905
Marine Fisheries Initiative	11.433	68,208
Cooperative Fishery Statistics	11.434	3,642
Southeast Area Monitoring and Assessment Program	11.435	78,028
Meteorologic and Hydrologic Modernization Development	11.467	49,151
Coral Reef Conservation Program	11.482	481,278
State and Local Implementation Grant Program	11.549	92,289
Total U.S. Department of Commerce		1,880,837
National Endowment for the Arts		
Promotion of the Arts - Partnership Agreements	45.025	308,500
U.S. Department of Energy		
State Energy Program	81.041	235,404
ARRA - State Energy Program	81.041	17,502
Weatherization Assistance for Low-Income Persons	81.042	10,855
ARRA - Weatherization Assistance for Low-Income Persons	81.042	1,940
Total U.S. Department of Energy		265,701

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal Grantor *Grantor/ Program or Cluster Title*	*Federal* *CFDA* *Number*		*Federal* *Expenditures*
Corporation for National and Community Service			
Retired and Senior Volunteer Program	94.002		31,807
Foster Grandparent/Senior Companion Cluster			
Foster Grandparent Program	94.011		221,335
Total Corporation for National and Community Service			253,142
Institute of Museum and Library Services			
Grants to States	45.310		101,850
Executive Office of the President			
High Intensity Drug Trafficking Areas Program	95.001		83,500
U.S. Department of Housing and Urban Development			
Supporting Housing Program	14.235		25,100
Total Expenditures of Federal Awards		$	258,452,704

1. Reporting Entity

The Schedule of Expenditures of Federal Awards (the Schedule) includes the activity of all Federal award programs administered by the Government of the United States Virgin Islands (the Government), as defined in a manner consistent with the entity defined in the basic financial statements as of and for the year ended September 30, 2014, except that certain organizational units (as defined previously) are excluded as they contract for separate audits in accordance with Office of Management and Budget (OMB) Circular A-133. Accordingly, the accompanying Schedule presents the Federal financial assistance programs administered by the primary Government for the year ended September 30, 2014.

2. Basis of Presentation

Federal award programs include direct expenditures, monies passed through to nonstate agencies (i.e., payments to subrecipients) and nonmonetary assistance. The Schedule presents total Federal awards expended for each individual Federal program in accordance with OMB Circular A-133. Federal award program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA). Federal award program titles not presented in the Catalog are identified by Federal Agency number followed by (.000).

3. Basis of Accounting

The expenditures for each of the Federal award programs are presented in the Schedule on a modified accrual basis, except for nonmonetary programs, which are presented based on the fair value of the food stamps (CFDA No. 10.561 in the amount of $55,338,091) and the food cost (CFDA No. 10.557 in the amount of $4,271,636) distributed during the year. The modified accrual basis of accounting incorporates an estimation approach to determine the amount of expenditures incurred if not yet billed by a vendor. The Government's accounting system provides the primary information from which the Schedule is prepared.

4. Matching Costs

Matching costs, such as the non-Federal share of certain program costs, are not included in the accompanying Schedule, except Unemployment Insurance (CFDA No. 17.225), as indicated in Note 7.

5. Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of Federal financial reports vary by Federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the Federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which are prepared on the basis explained in Note 3.

6. Rebates from the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

During fiscal year 2014, the Government received cash rebates from infant formula manufacturers in the amount of approximately $830,000 on sales of formula to participants in the WIC program (CFDA No. 10.557), which are netted against total expenditures included in the Schedule. Rebate contracts with infant formula manufacturers are authorized by 7 CFR 246.16(m) as a cost containment measure. Rebates represent a reduction of expenditures previously incurred for WIC food benefit costs.

7. Unemployment Insurance (UI)

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

Territory UI Benefits (Trust Fund)	$ 20,229,859
Federal UI Benefits (Administration)	2,998,382
Total	$ 23,228,241

8. Research and Development Programs

The Government may receive and expend Federal funding for various research and development programs. The aggregate amount of such expenditures for the year ended September 30, 2014, did not equal an amount that would constitute a major program under the guidelines of OMB Circular A-133.

9. Subrecipients

Of the Federal expenditures presented in the Schedule, the Government provided Federal awards to major program subrecipients as follows.

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Special Education - Grants for Infants and Families	84.181	$ 738,616

Schedule of Findings and Questioned Costs

Government of the United States Virgin Islands

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

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

Internal control over financial reporting:

- Material weakness(es) identified? __X__ yes _____ no
- Significant deficiency(ies) identified? __X__ yes _____ none reported
- Noncompliance material to financial statements noted? __X__ yes _____ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? __X__ yes _____ no
- Significant deficiency(ies) identified? __X__ yes _____ none reported

Type of auditor's report issued on compliance for major programs:

CFDA Number	Name of Federal Program or Cluster	Opinion
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Unmodified
10.555/10.556/10.559	Child Nutrition Cluster	Qualified
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Unmodified
11.419	Coastal Zone Management Administration Awards	Qualified

CFDA Number	Name of Federal Program or Cluster	Opinion
11.482	Coral Reef Conservation Program	Unmodified
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Unmodified
15.875	Economic, Social, and Political Development of the Territories	Qualified
17.225	Unemployment Insurance	Qualified
20.205	Highway Planning and Construction	Unmodified
84.027	Special Education - Grants to States	Unmodified
84.403	Consolidated Grant to the Outlying Areas	Unmodified
93.558/93.558 – ARRA	Temporary Assistance for Needy Families	Adverse
93.563	Child Support Enforcement	Unmodified
93.600	Head Start	Qualified
93.778/93.778 - ARRA	Medical Assistance Program	Adverse

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? __X__ yes ______ no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
10.555/10.556/10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
11.419	Coastal Zone Management Administration Awards
11.482	Coral Reef Conservation Program
12.401	National Guard Military Operations and Maintenance (O&M) Projects
15.875	Economic, Social, and Political Development of the Territories
17.225	Unemployment Insurance
20.205	Highway Planning and Construction
84.027	Special Education - Grants to States
84.403	Consolidated Grant to the Outlying Areas
93.558/93.558 – ARRA	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.600	Head Start
93.778/93.778 - ARRA	Medical Assistance Program

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

Auditee qualified as low-risk auditee? _____ yes ___X___ no

Section II - Financial Statement Findings

Finding 2014-001: Year-End Close Process

Accounting tasks, such as periodic reconciliations, play a key role in proving the accuracy of accounting data and information included in various interim financial statements and/or reports.

Periodic Reconciliations

Finding and Recommendation:

We noted inconsistencies in the reconciliation, review, and approval processes along with a significant delay in the year-end closing process and preparation of year-end financial statements. We noted that in many cases, reconciliations were finalized during the audit process, which represents a substantial delay when compared to the Government's fiscal year-end.

Therefore, detailed schedules supporting general ledger accounts did not always agree with the respective general ledger balances. Significant post-closing adjustments were provided during the audit process. In order to prevent significant errors in the financial records and financial statements as well as prevent possible irregularities, including fraud, to exist and continue without notice, we recommend that all accounts, accruals, and reconciliations be reviewed on a periodic basis. The composition of any unreconciled differences should be determined and followed up on, and any journal entries, deemed necessary as a result, should be recorded.

The year-end closing could proceed more quickly and smoothly by instituting a logical order for closing procedures and assigning responsibility for completing the procedures to specific personnel. Strict adherence to this schedule should be required because this will allow for the year-end work and audit preparation to be a much less time-consuming and arduous process, without sacrificing the quality of the accounting records or minimizing existing internal controls. Further, the Government should establish a policy to restrict posting transactions directly to net position. We recommend that an appropriate and responsible official review the net position account activity periodically to ensure that the account only has appropriate entries.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: In an effort to develop reliable and timely interim and year-end financial statements, the Department of Finance will review all accounts, accruals, and reconciliations on a quarterly basis. Any unreconciled differences will be identified and resolved, with any applicable journal entries, recorded in the financial system of the Government.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Department of Finance; specifically, the Directors of Accounting, Treasury, and Payroll.

Incorporation of Component Units

Finding and Recommendation:

During our review of the Government's draft financial statements, we noted various inconsistencies with the incorporation of component units' financial statements as it related to classification and reporting of account balances. These included instances such as the following:

- Classification of current versus non-current presentation.

- Inconsistency in disclosures relating to Governmental Accounting Standards Board Codification Section C20, *Cash Deposits with Financial Institutions*.

- Payments from the primary government presented as operating grants or charges for services instead of being reflected in the payment from primary government column.

- Incomplete disclosure of component units' significant items within the Government's financial statements.

- The component unit due to/due from reconciliation analysis required substantial adjustments amounting to approximately $46 million.

- With respect to the Government's blended component units, a schedule outlining the methodology to accurately capture and present said balances in the Government's financial statements was not readily available. This necessitated an extended analysis of account balances in an effort to ensure the audited balances of blended component units had been accurately captured in the Government's financial statements.

- We noted that a substantial defeasance of bonds, amounting to $55 million, had been accounted for in a component unit's financial statements; however, this had not been reflected in the Government's draft financial statements.

These types of instances resulted in significant financial reporting adjustments to the Government's draft financial statements. We recommend the Government implement closing procedures which would allow it adequate time to reconcile intercompany account balances and perform a thorough and detailed review to ensure consistent financial disclosure of component units' information within its own financial statements.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and a reasonable portion of the recommendations.

Action Plan: Concomitant with the annual request for audited financial statements from the separate instrumentalities of the Government (i.e., component units), the Department of Finance will reinforce its request to said instrumentalities to complete a Component Unit Reporting Package (the Reporting Package).

The Reporting Package will be used in the preparation of the financial statements of the Government. The completion of the Reporting Package by component units of the Government will enhance the implementation of closing procedures and thereby allow the Department of Finance adequate time to reconcile intercompany account balances, as well as perform a thorough and detailed review to ensure consistent financial disclosure of component units' information within its own financial statements.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Department of Finance; specifically, the Assistant Commissioner and Director of Accounting.

Major Fund Calculations

Finding and Recommendation:

The Government is required to determine its major funds for reporting fund financial statements in conformity with the quantitative criteria of Governmental Accounting Standards Board Statement No. 34. We noted that Fund 3100, *Federal Fund*, met the major fund criteria; however, the fund had not been separately displayed in the draft financial statements which represented a departure from generally accepted accounting principles.

Although the fund financial statements were subsequently corrected, we recommend the Government review the treatment of its major funds on a year-to-year basis as this will ensure financial statement compliance with the stated accounting and reporting requirements.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: At the commencement and conclusion of developing the draft working trial balance, the Department of Finance will document, assess, and approve its major funds on a yearly basis to ensure financial statement compliance.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Department of Finance; specifically, the Assistant Commissioner and Director of Accounting.

Inventory Account

Finding and Recommendation:

The Government maintained a net negative inventory account balance of approximately $3 million at year-end. We noted that this was the result of an error which had accumulated and had remained unresolved since 2012. While this error was subsequently adjusted during the audit process, we recommend the Government perform a periodic review of balance sheet accounts throughout the fiscal year, to ensure account balances are properly stated at year-end.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: In an effort to develop reliable and timely interim and year-end financial statements, the Department of Finance will review balance sheet accounts on a quarterly basis, to ensure that account balances are properly stated at year-end.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Department of Finance; specifically, the Directors of Accounting, Treasury, and Payroll.

Accounting System Functionality

Finding and Recommendation:

- The Government's official accounting and recordation system accepts unbalanced journal entries. As a result, we noted an instance where a fund's trial balance was out of balance at year-end. The existing set-up requires a periodic monitoring of unbalanced journal entries. We recommend the Government devise a process to clear unbalanced journal entries in a timely manner and address system issues to ensure proper recording of accounting transactions.

- We noted that post-closing adjustments are not posted in the accounting system but are maintained in a manual excel working trial balance. Considering the volume of post-closing adjustments and the manual process of reversing year-end accruals and/or other adjustments, there is continuous opportunity where items can be missed and may not be accurately and timely captured, and therefore, increasing the potential for prior period adjustments to correct balances. A substantial adjustment was noted in the current year to correct entries which has been posted in prior years. We recommend the Government consider a closing procedure to ensure all post-closing and audit adjustments are reflected in the accounting system so that the general ledger reflects audited balances and the correct opening balances for the upcoming fiscal year.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Accounting Director, with oversight from the Assistant Commissioner, will adopt a new closing procedure whereby all post-closing and audit adjustments maintained in the manual excel working trial balance are reviewed, ratified, and recorded in the financial management system throughout the audit engagement, such that the general ledger reflects audited balances and the correct opening balances for the upcoming fiscal year.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Department of Finance; specifically, the Assistant Commissioner and Director of Accounting.

Finding 2014-002: Bank Accounts

Cash is the most liquid of assets and has the highest risk for theft, embezzlement, and misappropriation. When bank reconciliations are not performed consistently and in a timely manner, there is an increased risk of unauthorized transactions or bank errors going undetected. Further, timely preparation of complete and accurate bank reconciliations is key to maintaining adequate control over both cash receipts and disbursements.

Preparation of Reconciliations

Finding and Recommendation:

Our review of the Government's bank accounts revealed that reconciliations had not been prepared on a timely basis. Most bank reconciliations were completed and reviewed as part of the year-end financial reporting close process. As a result, a large number of year-end adjustments were required for transactions which had not been recorded in the general ledger during the course of the fiscal year. We recommend that bank reconciliations be prepared and reviewed for accuracy and completeness on a timely basis. An indication of proper review and approval of bank reconciliations, by a responsible official, should also be evident.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Treasury Director, with oversight from the Assistant Commissioner, will be provided with additional human capital to ensure that bank reconciliations are prepared by the requisite staff and reviewed and signed-off for accuracy and completeness on a bi-monthly basis by the Treasury Director.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Department of Finance; specifically, the Assistant Commissioner and Director of Treasury.

Outstanding Checks

Finding and Recommendation:

We noted a significant amount of outstanding checks, some issued as far back as 1998, which are still being carried on the reconciliations. Outstanding checks and other uncleared reconciling items that are over one year old should be investigated and removed from the bank reconciliations and the original transactions should be reversed. Research should be done periodically to eliminate large numbers of old items being carried from month to month and from year to year. As an auxiliary step, consideration should also be given to the Territory's unclaimed property laws.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor’s findings and recommendations.

Action Plan: The Treasury Director will be provided with additional human capital for the purpose of reviewing outstanding checks and other reconciling items that have not cleared a specific bank account for more than one year. Upon identifying negotiable instruments that exceed the one year threshold, the Treasury Director will develop an annual procedure to further research and validate the status of the outstanding checks in an effort to ascertain whether they can be properly removed from on-going bank reconciliations, with the original transaction(s) reversed.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Department of Finance; specifically, the Director of Treasury.

Unclaimed Property Account

Finding and Recommendation:

Unclaimed property transactions are handled by the Government’s Lieutenant Governor’s Office. We noted that the corresponding cash account for this activity had not been reflected in the Government’s agency fund financial statements, thereby, requiring an adjustment during the audit process.

We recommend the Government review all bank accounts including those accounts managed by other departments or agencies to ensure the financial statements accurately capture all financial resources and liabilities.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor’s findings and recommendations.

Action Plan: The Treasury Director, will review all bank accounts including those accounts managed by other departments or agencies and transmit this information to the Director of Accounting to ensure the financial statements accurately capture all financial resources and liabilities.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Department of Finance; specifically, the Directors of Treasury and Accounting.

Finding 2014-003: Tax Revenue and Receivables

Through the Government's Division of Real Property Tax, all commercial and residential property subject to taxation in the Virgin Islands is assessed, property tax bills are prepared and mailed, and the collection of property taxes is carried out.

The Government's Bureau of Internal Revenue (the Bureau), in turn, is responsible for administering the internal revenue tax laws of the Virgin Islands. As such, the Bureau manages the processes over the following types of taxes: income, gross receipts, excise, highway user's, hotel room, entertainment, and fuel taxes.

Reconciliation of Subsidiary Registers

Finding and Recommendation:

The Government maintains various subsidiary registers as derived from its tax recordation systems, primarily CAVU and VITAX. However, the Government does not reconcile its subsidiary registers to its tax receivable general ledger account balances. This resulted in significant audit adjustments to establish the true tax receivable balances at year-end. A strong control system over receivables includes an accurate accounting system that maintains agreement between the subsidiary ledger and the general ledger. To prevent the need for major adjustments to the impacted tax receivable and revenue accounts at the end of each year, we suggest that the general ledger accounts be reconciled to the detailed records on a quarterly basis.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: For purposes of interim financial reporting, the Department of Finance will obtain valid subsidiary ledger reports reflecting the most up-to-date receivable balances emanating from the CAVU and VITAX systems on a quarterly basis from the Lieutenant Governor's Office and Bureau of Internal Revenue, respectively. Once received, the Department of Finance will update its general ledger to reflect the most accurate tax receivable balances.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Lieutenant Governor's Office and Bureau of Internal Revenue; specifically, the Tax Assessor and/or the Chief of Staff.

Allowances for Doubtful Accounts

Finding and Recommendation:

Adjustments to the allowances for doubtful accounts are calculated by the use of a formula that was established many years ago.

This computation places a high degree of reliance on past experience and can be greatly influenced by specific large write-offs that may occur from time to time. It is difficult to determine whether these historical formulas are properly matching bad-debt expense and tax revenue in the most appropriate manner, but it appears that the total allowances are somewhat overstated.

We believe that consideration should be given to re-evaluating the Government's model for establishing the allowances required to include some accounts receivable performance measures. Poor practices in this area have a direct negative impact on the Government because this affects cash flow. An updated analysis will provide management with accurate doubtful-account allowances that matches bad-debt expense with tax revenue.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: On a semi-annual basis, the Department of Finance will leverage enhanced fully documented methodologies utilized by the Lieutenant Governor's Office (CAVU) and Bureau of Internal Revenue (VITAX) to establish allowances for receivable balances. The Department of Finance will collaborate with the Lieutenant Governor's Office and Bureau of Internal Revenue to review and ratify the methodologies used.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Lieutenant Governor's Office and Bureau of Internal Revenue; specifically, the Tax Assessor and/or the Chief of Staff.

Real Property Tax

Finding and Recommendation:

- We identified the following exceptions during our sampled procedures over tax credits. Management should recognize that the potential exists for additional discrepancies.
    - The Government was unable to provide supporting documentation for six (6) items.
    - Eleven (11) sampled items had partial supporting documentation available.
    - Two (2) sampled items did not have the proper approval from the tax credit assessor.
- With respect to delinquent accounts, we noted that the property owners enter into settlement agreements with the Government which includes a fixed amount of penalties and interest. It is noted, however, that the CAVU system, continues to calculate such interest and penalties even after the actual settlement date. This has the effect of potentially inflating the calculated interest in the stand-alone CAVU system.

Views of Responsible Officials and Planned Corrective Actions:

The Office of the Lieutenant Governor concurs with the auditor's findings and recommendations.

Action Plan: The Office of the Lieutenant Governor is presently negotiating with the vendor (CAVU) for the development of the installment agreement program to be added to the existing system. When completed, there will be no need for manual paper records and spreadsheet updates.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Lieutenant Governor's Office; specifically, the Tax Collector and/or the Chief of Staff.

Optimum Usage of the Real Property Tax System

Finding and Recommendation:

It appears that the CAVU system, as currently designed, is not adequately meeting the financial and reporting needs of the Government. There exists an inability to assess account aging and to produce aged outstanding receivable reports, as well as a lack of ability to generate a cut-off balance as of any given point in time.

As a result, knowledge of the composition and quality of the Government's receivables is significantly impaired and this has a direct effect on the accuracy of financial reporting and financial decision-making. For instance, the collections used to calculate the modified accrual basis adjustment(s) for financial reporting purposes are not regularly reconciled to ensure accurate and proper cut-off of information has been captured in order to establish 'available cash.'

Management may consider contacting the vendor of the CAVU system to request the development of and/or the capability of producing accurate aged receivable reports as well as a functionality or reporting tool to produce cut-off balances at any given point in time. This would assist the Government in establishing a system that produces timely and accurate financial information.

Views of Responsible Officials and Planned Corrective Actions:

The Office of the Lieutenant Governor concurs with the auditor's findings and recommendations.

Action Plan: The Office of the Lieutenant Governor is currently negotiating with the vendor (CAVU) to develop more detailed reports that can be generated by any specific date requested to begin and/or end the selected report.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Lieutenant Governor's Office; specifically, the Tax Assessor/Tax Collector and/or the Chief of Staff.

Income Taxes

Finding and Recommendation:

We identified the following exceptions during our sampled test procedures. Management should recognize that the potential exists for additional discrepancies.

- We noted eight (8) items which contained data input errors. As a result, these items were logged in as income tax receivables, but should not have been reflected as such.

- The VITAX system does not appear to be calculating the complete interest and penalties earned on a tax payer's account. We noted interest and penalties earned are only calculated through the last activity of the taxpayer (i.e. last payment or adjustment to a tax payer's account) which may or may not coincide with the end of the Government's fiscal year.

- During our procedures over income tax receivables, the Government was unable to provide copies of income tax returns for 118 sampled items. Management may consider revising its retention policy for accounts that have outstanding balances.

- During our procedures over income tax refund expenses, the Government was unable to provide supporting documentation for two (2) sampled items.

Views of Responsible Officials and Planned Corrective Actions:

The Bureau of Internal Revenue substantially concurs with the auditor's findings and recommendations.

Action Plan: The Bureau will:

- Conduct training for the Data Entry and Error Resolution staff to properly identify all taxpayers who are entitled to tax exemptions and tax benefits.
- Implement a new reporting system that will include interest and penalties on taxpayers' accounts up to a requested date.
- Attempt to locate requested returns. It is noted that of the 118 sampled returns mentioned, 34 sampled returns were already shredded pursuant to the Bureau's retention policy. The Bureau was not able to produce 84 requested returns within the time frame. With the current scanning capabilities, this issue should not continue into the future.

Implementation Date: Immediately

Person(s) Responsible: The management team of the Bureau of Internal Revenue; specifically, Assistant Chief of Processing, Information Technology Director, and Federal Disclosure Officer.

Tax Clearances

Finding and Recommendation:

During our procedures over tax clearances issued during the fiscal year, the Government was unable to provide adequate supporting documentation for four (4) selected items. The supporting documentation or affidavit would support that the taxpayer was of good standing and did not have any outstanding balances with the Government. We identified the exceptions during our sampled procedures. Management should recognize that the potential exists for additional discrepancies.

Views of Responsible Officials and Planned Corrective Actions:

The Bureau of Internal Revenue concurs with the auditor's findings and recommendations.

Action Plan: The Bureau will maintain all applications and supporting documentation for tax clearance letters, for a three (3) year period.

Implementation Date: Immediately

Person(s) Responsible: The management team of the Bureau of Internal Revenue; specifically, Chief of Delinquent Accounts & Returns.

Collections Report for Income and Other Taxes

Finding and Recommendation:

The collections used to calculate the modified accrual basis adjustment(s) for financial reporting purposes are based on a revenue/collection report published on the Bureau's website. This report is based on unadjusted collections, and thus, the collections are not considered final amounts. We recommend that this information should be regularly reconciled to ensure accurate and proper cut-off of information has been captured in order to establish 'available cash.'

Views of Responsible Officials and Planned Corrective Actions:

The Bureau of Internal Revenue concurs with the auditor's findings and recommendations.

Action Plan: The Bureau will ensure that the collection reports on the website represent final monthly collected amounts.

Implementation Date: Immediately

Person(s) Responsible: The management team of the Bureau of Internal Revenue; specifically, the Director.

Tax Return Processing Method

Finding and Recommendation:

The Government is utilizing a manual process in that returns received by the Bureau are batched by type of return and by tax year and manually entered into the tax recordation system, VITAX.

The manual data entry is being reviewed on a random/sample basis and the Bureau is relying on the system's automated edit check to capture any errors. While the system's automated edit check identifies many errors, it does not guarantee the complete accuracy of the entered information. This poses a continued risk of data omissions, typographical errors, entry of information to incorrect fields, as well, as fraudulent data entry.

The flow of transactions into a computer system is a critical aspect of the design and maintenance of a strong system of controls. We recommend the Bureau consider an evaluation of its current review procedures around the tax return processing method in an effort to minimize associated risks.

Views of Responsible Officials and Planned Corrective Actions:

The Bureau of Internal Revenue concurs with the auditor's findings and recommendations.

Action Plan: The Bureau recognizes there are opportunities for training and system enhancements to increase our accuracy in the data entry area and the systems monitoring area. We will re-evaluate and re-establish all formal processing procedures, re-train the staff, and review the policies and procedures of refund processing to increase accuracy and minimize errors.

Implementation Date: December 31, 2015

Person(s) Responsible: The management team of the Bureau of Internal Revenue; specifically, Assistant Chief of Processing.

Finding 2014-004: Grants Management

The Government receives grant and contract funds from various funding agencies. These situations necessitate a strong accounting system to record specific grant and contract activities. The systems should facilitate the reporting requirements of each contract and grant and consideration must be given to compliance with laws and regulations that are a component of any grant or contract accepted.

Accuracy and Completeness of the Schedule of Expenditures of Federal Awards

Finding and Recommendation:

At present, the Government does not have the necessary internal controls in place to adequately prepare and review the Schedule of Expenditures of Federal Awards (SEFA). We noted the following during our procedures:

- Certain grant expenditures, amounting to $5.9 million, for Department of Education programs had been recorded twice. An adjustment was proposed to correct the SEFA and the financial statements.

- Approximately $7 million had been reflected as expenditures for Catalog of Federal Domestic Assistance (CFDA) Number 84.027A, *Special Education – State Grant Programs*; however, these funds had actually been spent for CFDA Number 10.555, *Child Nutrition Grant*. This resulted in an adjustment to the number of major programs requiring an audit under the requirements of Office of Management and Budget (OMB) Circular A-133.

- Approximately $1.5 million in expenditures had erroneously been recorded to CFDA Number 20.500, *Federal Transit Program*. This resulted in an adjustment to the number of major programs requiring an audit under the requirements of OMB Circular A-133.

- Approximately $763,000 had been reflected as expenditures for CFDA Number 20.205, *Highway Planning and Construction*; however, these funds had actually been spent for CFDA Number 15.875, *Economic, Social, and Political Development of the Territories*.

- Approximately $476,000 in expenditures had erroneously been recorded to CFDA Number 93.600, *Head Start Program*.

- Approximately $409,000 in expenditures for CFDA Number 84.027, *Special Education – Grants to States* was reflected in the incorrect period.

- The U.S. Virgin Islands is considered an insular area and therefore, qualified to receive certain consolidated grants. Such consolidated block grants can then be allocated to two or more grant programs as specified in the Federal regulations. We noted that while the Government is spending the funds based on its internal allocations to various programs, this allocation is not readily evident and reflected in the year-end SEFA. This resulted in an adjustment to the number of major programs requiring an audit under the requirements of OMB Circular A-133.

- We noted that there are instances, while an approval for a new grant is imminently pending and the Government is incurring start-up expenditures on said new grant program, all expenditures are coded to an existing (old) project code. Subsequently, upon the grant's approval, the Government does not revert back and reclassify the expenditures to the correct project codes. This results in expenditures being charged to incorrect projects, codes, and CFDA numbers.

- The aforementioned issues also impacted the roll-forward schedule for the general ledger account entitled 'Due from Federal government.' We noted a significant difference amounting to $27.7 million. The difference was a direct result of the lack of a reconciled SEFA and usage of incorrect Federal expenditures in the roll-forward schedule.

The above issues resulted in additional analysis and delays in order to ensure accuracy of the SEFA. The accounting system should facilitate the reporting requirements of each contract and grant and communication mechanisms should be enhanced between the centralized Government agency which is responsible for collecting the SEFA information and each individual agency which manages Federal grant programs in an effort to avoid the recurrence of such errors and misclassifications.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Schedule of Expenditures for Federal Awards (SEFA) is prepared by the Department of Finance via a customized report that extracts information from the Enterprise Resource Planning (ERP) system. However, the reconciliation of grant expenditures is ostensibly decentralized at the departmental/agency level. As such, departments/agencies are primarily responsible for performing the reconciliation function between grant expenditures and Federal financial reports; which, in the long run, will improve the reliability of the SEFA and reporting to grantor agencies. Therefore, in an effort to enhance the monthly reconciliation function, the Office of Management and Budget will fully implement the Grants Management Module, per the ERP system.

Given that certain financial data related to the SEFA is provided to the Department of Finance by certain third-parties using separate financial systems, the Department of Finance will coordinate with said parties – through the respective department/agency – in order mitigate the prospect of duplicating entries by documenting the roles, responsibilities, and timelines associated with posting financial data onto the central Government's ERP system.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: For the Grants Management Module, the Director, Office of Management and Budget and with respect to the SEFA, the Commissioner, Department of Finance.

Due from Federal Government

Finding and Recommendation:

Based on our review of the schedule of grants and contracts, we noted the Government is not monitoring its outstanding Federal receivables on a regular basis and further, there does not appear to be a process which incorporates a reconciliation of the receivable balances on a per grant/project basis. This leads to difficulty in establishing individual balances of both receivables and deferrals from grants and contracts, may mask items that have been inactive for many years, and can cause confusion regarding the true level of activity.

We recommend that management investigate and review these balances and take the appropriate action which would encompass an effective review and follow-up on individual accounts on a quarterly basis.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: In an effort to more accurately account for Federal receivables, the Office of Management and Budget will fully implement the Grants Management Module, per the Enterprise Resource Planning (ERP) system.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The Director, Office of Management and Budget.

Upcoming Uniform Grant Guidance for Federal Awards

Finding and Recommendation:

On December 26, 2013, the United States Office of Management and Budget (OMB) issued an omnibus OMB circular – colloquially referred to as the 'Uniform Circular' – which consolidates a constellation of regulations and seeks to provide consistent guidance for both the recipients and issuers of Federal grants. The Uniform Circular or the Uniform Grant Guidance contains multiple changes and consolidations, including:

- Makes explicit, in a single resource, what requirements apply to all recipients, and which are uniquely needed to address specific needs.
- Introduces requirements for formal certification of grant submissions.
- Attempts to streamline and standardize the cost principles in many ways, including new options for the recovery of indirect costs.

Non-Federal entities will need to implement the new administrative requirements and cost principles for all new Federal awards and to additional funding to existing awards (referred to as funding increments) made after December 26, 2014. The audit requirements will be effective for fiscal years beginning on or after December 26, 2014.

With the advent of the Uniform Grant Guidance, grant recipients and administrators must carefully re-evaluate their grant practices to determine what has remained the same, and what has not. We recommend that the Government take proactive measures to analyze the changes that may impact its Federal programs and offer training to all departments and agencies which administer such programs.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Government will partner with a third-party provider to take proactive measures in analyzing the changes that may impact its Federal programs, as well as offer training to all departments and agencies which administer such programs.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The Management Team of the Office of Management and Budget; specifically, the Deputy Director and Associate Director.

Finding 2014-005: Capital Assets and Related Expenditures

Capital assets constitute an investment of substantial amounts, thereby, requiring an excellent system of controls for the maintenance and safeguarding of these assets.

Finding and Recommendation:

We noted the following with respect to the processing and recording of capital assets:

- The Government was not readily able to provide a detailed asset register which is used to track capital assets and the related depreciation expense. In lieu of this, the Government provided a summary roll-forward schedule which was utilized for audit test work. The preparation of detailed property records aids in the accounting for property disposals, substantiates insurance claims for lost or damaged items, and provides controls to safeguard the assets.

- Per the aforementioned summary roll-forward schedule, we noted the Government has a significant number of on-going construction projects. An analysis had not been done during the fiscal year to identify completed projects which should have been transferred to depreciable capital assets. As a result, capital assets had not been properly classified and depreciation expense had not been properly calculated and recorded.

- The Government performed an analysis of its capital assets for impairment and identified several impaired assets. However, we were unable to determine the reasonableness and completeness of the analysis due to the fact that a detailed asset register was not readily available.

- We noted that business type-activity capital assets and the related accumulated depreciation recorded in the general ledger did not initially agree to the summary roll-forward schedule which was provided by $4.1 million. A revised assessment and schedule was subsequently provided.

- The beginning balance on the construction-in-progress schedule provided did not agree to the prior year's financial statements by approximately $1.8 million. This was an error which had remained unresolved for several years. A revised assessment and schedule was subsequently provided.

- While management has represented that there were no disposals during the fiscal year, the Government does not have a formal process for identifying and recording capital asset disposals and retirements. To ensure that all disposals and retirements are consistently processed, we recommend that formal policies be adopted.

- The Government was unable to provide an understanding of its process and controls over conducting a physical inventory of capital assets or provide evidence that a physical inventory had been performed during the fiscal year. We recommend that periodic physical counts be taken and compared to the detailed capital asset subsidiary ledger. This will help improve the tracking of assets for disposal and impairment purposes.

It should also be noted that as a recipient of Federal grant funds, the Government is required to have in place an inventory management system to track items purchased with Federal funds.

- During our sampled procedures over capital asset additions during the fiscal year, we noted the following:

    - The Government was unable to provide sufficient supporting documentation for seven (7) items.
    - Twenty-two (22) additions, amounting to approximately $7.1 million, had been reflected in the incorrect period.

These instances resulted in significant financial reporting adjustments. The Government should be diligently involved in the monitoring and review of its capital assets and in ensuring the reconciliation of supporting registers to its primary register. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing capital assets.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Department of Property & Procurement will spearhead the monitoring and review of the Government's capital assets and ensure reconciliation of supporting registers to its primary register. As the lead agency for managing the property of the Government, the Department of Property & Procurement will coordinate and communicate amongst all Government departments and/or agencies that are responsible for handling and managing capital assets.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The Commissioner, Department of Property & Procurement.

Finding 2014-006: Recording of Liabilities

A fundamental element of a sound system of internal controls is an effective liability calculation process. Such a process helps ensure that all liability transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Poor practice in this area allows for situations to occur in which accounts payable and other liabilities accrue without regard to the ability to repay the debt until they reach near crisis proportions. This kind of situation is most detrimental because it directly affects cash flow.

In recent times, the Government's financial statements have grown in complexity. The Government should consider performing a liabilities close process on a quarterly schedule in order to detect and correct on a timely basis, while at the same time, enhancing the Government's knowledge over its financial condition.

Retroactive Pay Liability

Finding and Recommendation:

The Government's lack of control over its retroactive pay liability has affected the auditor's ability to opine on certain affected opinion units.

- We noted that currently there is a $195 million retroactive pay liability reflected on the books and records; however, the supporting schedules can only confirm $184 million which, in turn, is based on an analysis of collective bargaining agreements (CBAs) from the initial retroactive pay wage Commission findings.

- Approximately 70% of the Government's employees are paid varying rates, based on different CBAs. We noted that there are several CBAs that have not been evaluated, implemented, ratified, and accrued for. We recommend that management set up a master file that summarizes the pay rate from each CBA and related factors that influence the rate. Management should then periodically review the master file and compare pay rates to the authorized rates contained in personnel files to determine that the current and effective rates in usage are appropriate.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Division of Personnel (DOP) will work with the Office of Collective Bargaining (OCB) and the Office of Management and Budget (OMB) to develop a master file that will serve as a clearinghouse for collective bargaining agreements and negotiated pay rates for unionized public sector workers. The Government's Chief Negotiator will take the lead in developing the master file containing negotiated pay rates. OCB management will coordinate with the Division of Personnel's staff, to include the Director and Information Technology/ Records Management staff, along with senior budget analysts from OMB to first develop a firm number with regard to the government's retroactive obligation. This process has already started.

Additionally, on a bi-annual basis, the team will meet in order to compare negotiated employee salary rates to those contained in the official personnel records within the ERP system database. It must be noted that DOP functions as a facilitator with regard to the hiring process and relies on official financial information from OCB and OMB. OCB negotiates and interprets contract language for unionized public sector workers while OMB certifies the availability of funding for the purpose of wage implementation. DOP then reviews, audits, and implements newly negotiated wages.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Division of Personnel; specifically, the Information Technology Manager, Personnel Records Supervisor, OMB Director, Senior Budget Analysts.

Medical Malpractice Liability

Finding and Recommendation:

It is noted that *Reciprocal Insurance Fund* includes disbursements pertaining to payments of medical malpractice claims. However, we further noted that the Government has not completed the necessary analysis in order to determine the quantifiable recordation of a corresponding and estimated liability for medical malpractice claims, in accordance with generally accepted accounting principles.

Due to a lack of controls around the Government's claims data process, it has been unable to gather and generate the proper information which is needed for an actuary to compile an estimated liability at year-end. As such, the Government's records do not permit, nor is it practical to extend audit procedures sufficiently to determine the extent by which the Business-Type Activities and the Aggregate Remaining Fund Information may have been impacted, as of and for the year ended September 30, 2014, thereby effecting the auditor's ability to opine on said opinion units. We recommend that the Government consider allocating adequate resources to properly evaluate the necessary information which can then be provided to an actuarial service provider as it facilitates the Government in calculating the year-end liability.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Department of Human Services will allocate the requisite resources to properly evaluate the necessary information, which can then be provided to an actuarial service provider for purposes of facilitating the Government in calculating the year-end medical malpractice liability.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The Commissioner, Department of Human Services.

Accounts Payable

Finding and Recommendation:

At present, the Government's general ledger control account for accounts payable does not agree with the subsidiary ledger balances during the entire fiscal year. This is due to the fact that management establishes its accounts payable subsidiary ledger through a manually intensive process, which is based solely on subsequent events when performing the yearly financial statement close process. This practice, in turn, is based on a system functionality wherein, the accounting system does not allow for recording or accrual of invoices when the obligation is incurred, but rather when the corresponding allotment has been approved by the Office of Management and Budget (OMB).

This routine also impacts the accuracy in recordation of capital assets in that any accruals for goods and services received is not properly and timely recorded in the capital asset register, resulting in capital assets being reflected in the incorrect periods.

Overall, this generates significant adjustments during the annual audit process. Moreover, supervisory review of the accounts payable reconciliation process and estimation of accrued liabilities is noted to not be effective in all instances. Management may consider utilizing its ERP Accounts Payable module more regularly in order to reduce the existing manual efforts through which accounts payable are established.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: At present, the ERP system does not allow departments/agencies to enter vendor invoices unless a sufficient allotment is approved by OMB. As a result of this system functionality, certain vendor invoices are set-aside, rather than entered (or accrued for immediately), until OMB provides for a periodic allotment – which may occur several months after year-end. Therefore, given that the OMB allotment process is the underlying controlling mechanism for entering vendor invoices, the Department of Finance must perform a manually intensive review of year-end transactions that are posted in a subsequent year.

The Department of Finance will proactively collaborate with the software vendor supporting its ERP Accounts Payable module to ascertain whether a reduction in the existing manual efforts can be achieved.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Department of Finance; specifically, the Assistant Commissioner and Director of Accounting.

Income Tax Refunds Payable

Finding and Recommendation:

We noted that the payout of income tax refunds is dependent on the Government's 'available cash.' At present, the Government establishes its year-end liability for income tax refunds through a manually intensive process, which is based solely on subsequent events (i.e. actual tax refunds processed and paid after year-end). This methodology in establishing the year-end liability does not take into consideration the various refund batches which exist, but have not been not processed or paid due to limitation of available cash, thereby understating the true liability.

During the audit process, the Government revisited its database and a significant adjustment was required in order to establish the accurate income tax refunds payable at year-end.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Bureau of Internal Revenue will revise its methodology in establishing the year-end liability to take into consideration the various refund batches which exist, but have not been not processed or paid due to limitation of available cash.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The Director, Bureau of Internal Revenue.

Finding 2014-007: Management of the Medicaid Program

Each State or Territory establishes systems for administering and providing Medicaid benefits. The Medicaid program is jointly funded by the Federal and the respective local government. The Virgin Islands Department of Human Services (the Department) is the primary agency responsible for administering the Government's Medicaid program.

<u>Management of Third-Party Vendor Relationship(s)</u>

Finding and Recommendation:

The Department uses the Medicaid Management Information System (MMIS) to process Medicaid claims, and pays a fee to a third-party service provider to provide maintenance and operational services. By using a third-party service provider, the Government assumes the risk of incomplete or inaccurate data processing, or worse, the risk of fraud.

We recommend that management should require and review an annual Statement on Standards for Attestation Engagements (SSAE) No. 16 Type 2 report (which superseded the SAS 70 audit standard) to review relevant information regarding the service provider's internal control design and operating effectiveness in which the Government's Medicaid claims reside. All issues should be addressed by management. If management becomes aware that such a report will not be available, we recommend that management conduct its own review including performing periodic on-site visits or distributing an internal control questionnaire to the service provider to assist in evaluating the control consciousness of the service provider.

The Government's records do not permit a determination as to the sufficiency of the design and operation of key controls surrounding the environment in which the Government's Medicaid claims reside. As such, we are unable to determine how the Governmental Activities and the General Fund information may have been impacted, as of and for the year ended September 30, 2014, thereby effecting the auditor's ability to opine on said opinion units.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: In order to review relevant information regarding the service provider's internal control design and operating effectiveness, the Department of Human Services will contract with an independent auditor to conduct the Statement on Standards for Attestation Engagements (SSAE) No. 16 Type 2 report, on an annual basis.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The Commissioner, Department of Human Services and Chief Financial Officer.

Accounting Practices

Finding and Recommendation:

Proper financial statement reporting under generally accepted accounting principles requires the recognition of material liabilities (and assets) that exist at the end of each fiscal year, but are paid or received after year-end. Medicaid receivables (assets) and liabilities may arise in three major areas: provider claims; rate setting and appeals; and Federal disallowances. We noted that the Government currently maintains Medicaid expenditures on a cash basis and has not recorded a receivable or a liability for outstanding claims or other related programmatic activities at the end of each fiscal year. As a result, we noted activity relating to prior periods necessitating the need for significant financial reporting adjustments.

We recommend that the Government consider allocating adequate resources to properly evaluate the necessary information which can then be used to estimate the Medicaid receivable and liability at each fiscal year-end.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Medicaid program is on a cash basis. Costs are incurred during the fiscal year for the Hospitals and Seaview. The Department is in the process of obtaining an independent auditor for the purpose of conducting an audit on the Cost Reports for these facilities. Within the first quarter of Fiscal Year 2016, the vendor should be selected and the reports will be subsequently reviewed.

Thereafter, cost reports will be independently audited on a periodic basis and shared with the Department of Finance to post in the ERP system as a receivable and/or liability.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The Commissioner, Department of Human Services and Chief Financial Officer.

Cost Report Audits

Finding and Recommendation:

Two Government owned and operated hospitals, the Governor Juan F. Luis Hospital & Medical Center and the Roy Lester Schneider Hospital, provide Medicaid services to eligible Territory residents. Both hospitals function on a non-DRG platform, meaning that they charge through daily per diem rates based upon the amount of patients serviced.

The costs incurred by the hospitals and/or other long-term care facilities participating in the Medicaid program are to be summarized in a cost report which, in turn, is to be submitted to the Department.

The cost reports are then required to be audited per the Government's Medicaid State Plan. Based on audits of the cost reports, a receivable or a payable should be recorded for the difference between costs submitted for reimbursement and the costs actually reimbursed.

We noted that the Department has not audited cost reports for the fiscal year. We recommend that management evaluate and develop policies and procedures to obtain and audit the cost reports. This will allow the Government to reduce the time between Medicaid expenditures being incurred and the ultimate reimbursement from the Federal government.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Department is in the process of obtaining an independent auditor for the purpose of conducting an audit on the Cost Reports for these facilities. Within the first quarter of Fiscal Year 2016, the vendor should be selected and the reports will be subsequently reviewed.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The Commissioner, Department of Human Services and Chief Financial Officer.

Finding 2014-008: Unemployment Insurance Trust Fund

Account Reconciliation Process

Finding and Recommendation:

We noted that the Fund's cash, premium receivables, and benefits payable account reconciliations had not been prepared and were not available during the audit process. As such, the Government's records do not permit, nor is it practical to extend audit procedures sufficient to determine the extent by which the Business Type Activities and Unemployment Insurance Trust Fund may have been impacted, as of and for the year ended September 30, 2014, thereby affecting the auditor's ability to opine on said opinion unit.

Accounting tasks, such as periodic reconciliations, play a key role in proving the accuracy of accounting data and information included in various interim financial statements and/or reports. Timely preparation of complete and accurate reconciliations is also key to maintaining adequate control over both cash receipts and disbursements.

In order to prevent significant errors in the financial records and financial statements as well as prevent possible irregularities, including fraud, to exist and continue without notice, we recommend that all accounts, accruals, and reconciliations be reviewed on a periodic basis. The composition of any unreconciled differences should be determined and followed up on, and any journal entries, deemed necessary as a result, should be recorded.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Virgin Islands Department of Labor (VIDOL) recognizes the need to reconcile our unemployment insurance (UI) accounts on a timely basis. VIDOL will develop the necessary internal controls which include step-by-step policies and procedures for the timely reconciliation of cash receipts and disbursements. VIDOL has identified the necessary staff to ensure that these functions and tasks are carried out timely and continuously. All identified staff member(s) will be educated and trained on said policies and procedures, as well as any other computer related programs for full execution.

It is the intent of VIDOL to develop a software program to assist with the internal tracking of cash receipts and disbursements in order to prevent significant errors in the financial records and statements.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Department of Labor; specifically, the UI, Director, UI Assistant Director, IT Director and Business & Administrative Director, UI Accountant, and Assistant Commissioner.

Employer Audit Requirement

Finding and Recommendation:

Generally, employers pay quarterly contributions to cover their workers against involuntary unemployment and any benefits owing are funded by these contributions. The Government must establish an Unemployment Insurance active contributor employer account audit program in accordance with the U.S. Department of Labor advisory letter 'Unemployment Insurance Program Letter 03-11.' As part of the program, the Government is required to complete employer audits and document the results as compared to various defined effective audit measure(s).

The Government did not conduct the required employer audits in accordance with the U.S. Department of Labor's advisory letter. It is noted that the Virgin Islands Department of Labor (VIDOL) has currently suspended its employer audits as it continues to be challenged with vacancies and a shortage of personnel.

While we recognize VIDOL's current efforts towards updating the employer audit internal control and policies manual, we strongly recommend that VIDOL allocate sufficient resources to ensure the required annual employer account audits are performed and performed properly or consider utilizing a third party contractor to conduct the required audits.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: VIDOL will establish an Audit Division within the Tax Unit to conduct these field audits. VIDOL has begun the process of allocating the necessary funding to hire needed personnel to accomplish this goal in order to successfully complete this function. VIDOL will also develop step-by-step policies and procedures for field audit performance measures and incorporate the necessary training that will enable each staff member to meet or exceed audit requirements.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Department of Labor; specifically, the UI Director, Assistant Director/Chief of Tax, and UI Accountant.

Finding 2014-009: Pension Plan Obligations

The Government of the Virgin Islands Employees' Retirement System (GERS or the Retirement System) is a single employer, defined benefit pension plan established by the Government to provide retirement, death, and disability benefits for its employees. The Government also provides other post-employment benefits (OPEB) for healthcare, prescriptions, dental, and life insurance coverage.

Retirement System Accounting Pronouncement Implementation Preparedness

Finding and Recommendation:

Effective for the fiscal year ending September 30, 2015, the Government will be required to implement Statement No. 68 of the Governmental Accounting Standards Board related to accounting and financial reporting for pensions. The standard will require that the Government record a net pension liability of the GERS single employer defined benefit plan on the government-wide financial statements of the primary Government and allocate a portion to its component units and its enterprise funds.

The impact of implementing this standard will be that the Government will increase its liabilities and decrease its net position by the amount of the calculated net pension liability. We noted that the most recent GERS actuarial valuation report as of October 1, 2014, disclosed a net pension liability of $3.1 billion. Further, any payments made by the Government from the measurement date of the actuarial valuation to the financial reporting date will be recorded in the financial statements as a deferred outflow of resources.

We recommend that as the Government prepares to implement this standard, adequate resources be allocated to properly evaluate all census information provided to the actuarial service provider as it facilitates the Government in calculating the net pension liability for the fiscal year ending September 30, 2015. The employee data in the census information should be accurate or it could have a material effect on the Government's financial statements and the auditor's ability to opine on said financial statements.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: For the past three (3) years, since the implementation of the new Benefits system (V3), GERS has been allocating resources to identify and correct inaccurate member data in the census database that is provided to our actuary. Additional manpower will be allocated through the December 30, 2015 due diligence period. Additionally, GERS will allocate displaced employees due to the suspension of the Loan Program to assist with the due diligence on the accuracy of the member information in the census database.

The Division of Personnel will coordinate with the GERS Administrator to discuss how both agencies can collaborate to effectively improve the quality of the census data. It is anticipated that the GERS and the Division of Personnel will do an annual comparative analysis of the employee and retiree related data held by both entities. During this process, data will be reconciled in both databases. After the initial reconciliation is completed, an annual review will be done to ensure that relevant information is synchronized within both systems. Information Technology and Records Management personnel from both agencies will be intimately involved in these meetings.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Government Employees Retirement System and Division of Personnel; specifically, Administrator, Director, Member Services, and Director of Information Technology.

Retirement System Minimum Funding

Finding and Recommendation:

We noted that the Government has not funded the minimum annual required contributions (ARC) for the Retirement System for a number of years. For fiscal year 2014, the Government funded 36% of the minimum ARC. As indicated earlier, the most recent GERS actuarial valuation report as of October 1, 2014, disclosed a net pension liability of $3.1 billion which represents an obligation the Government has to fund a commitment of benefits to its employees. We also noted that this overall lack of funding has placed various operating restrictions on the pension plan. We recommend that the Government consider allocating resources to conduct comprehensive studies to revise benefits and establish funding policies to ensure the minimum ARC obligations are met each year. Management may also consider embarking on an advisory path to consider other alternatives.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: In prior fiscal years, the Government allocated the relevant resources to conduct comprehensive studies and recommend revisions to benefits as well as establish funding policies to ensure the minimum ARC obligations are met each year. Much of the efforts put forth are now being deliberated by the Legislature for approval and submission to the Governor.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Office of the Governor, Office of Management and Budget, Department of Finance, and Government Employees' Retirement System.

Other Post-Employment Benefits

Finding and Recommendation:

We noted the following during our audit process:

- As of September 30, 2014, the actuarial accrued liability and funding status shows an unfunded accrued obligation of $983 million. We recommend that the Government consider establishing an OPEB Trust Fund which would accumulate assets in order to meet the required obligations.

- For the year ended September 30, 2014, the annual required contribution (ARC) was $65.8 million and the actual employer (Government) contribution was $31.2 million.

- As a result of the accumulated underfunded ARC over a number of years, the Government has amassed a net OPEB obligation of $319 million as reflected on the books and records at year-end. We recommend that the Government consider allocating resources to conduct comprehensive studies to identify and establish funding policies and sources to ensure the minimum ARC obligations are made each year. Management may also consider embarking on an advisory path to consider other alternatives.

- In order to complete this most recent actuarial analysis of the plan, we noted that the census data submitted to the actuary required significant adjustments and assumptions before it could be utilized to complete the necessary calculations. The census data submitted was missing employee group codes, missing service years, missing accumulated leave conversion amounts, and contained duplicate records. This introduces a greater level of uncertainty than might ordinarily apply to such calculations. Internal controls should ensure the accuracy of all active employee and retiree census data before submission for further calculations and analysis.

- In June 2015, Statement No. 75 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was issued. This standard will affect the Government's fiscal year 2018 financial statements and will require that a liability be recorded for the unfunded actuarial accrued obligation. We recommend that as the Government prepares to implement this standard, adequate resources be allocated to properly evaluate all census information provided to the actuarial service provider as it facilitates the Government in calculating the net liability. The employee data in the census information should be accurate or it could have a material effect on the Government's financial statements and the auditor's ability to opine on said financial statements.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: In prior fiscal years, the Government allocated the relevant resources to conduct comprehensive studies and recommend revisions to benefits as well as establish funding policies to ensure the minimum ARC obligations are met each year. Much of the efforts put forth will be deliberated by the Executive Branch for approval and submission to the Governor.
Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Office of the Governor, Office of Management and Budget, and Department of Finance.

Finding 2014-010: Payroll, Related Accruals, and Other Expenditures

In most organizations, payroll cost is the highest of all expenditures. A strong internal control system can generally be implemented to cover potential threats of error and misappropriation with a reasonable effort. These include proper supervision, review, and separation of like-minded duties or functions.

Finding and Recommendation:

We identified the following exceptions during our sampled procedures over payroll expenses. Management should recognize that the potential exists for additional discrepancies.

- Four (4) employees had different pay rates on their Notification of Personnel Action (NOPA) forms as compared to the rate in effect during the actual pay period which had been selected for test work. The personnel files appeared to be missing current information as the most recent pay raise documentation in the files was from several years ago.

- Eleven (11) employee files did not contain copies of the approved NOPA forms.

- One (1) employee received an additional six (6) hours of pay as compared to what had been reported on the respective timesheet.

- Management was unable to verify the accuracy of one (1) employee’s timesheet hours.

- As it relates to overtime calculations, management has been unable to produce the timekeeping rules policy for our review.

We identified the following exceptions during our sampled procedures over terminated employees. Management should recognize that the potential exists for additional discrepancies.

- Six (6) employee personnel files did not have any documentation of a retirement or termination date.

- Four (4) employees had termination data on their NOPA forms which did not agree to the “FY14 Termination Listing.”

- Two (2) employees had accrued annual leave in excess of the 480 maximum hours statutory cap and had received the corresponding lump sum payments.

- One (1) employee had a termination date of March 2014 and was noted to still be receiving pay, as recent as July 2015.

We noted the following exceptions during our procedures over accrued compensation (leave) balances:

- The Government currently has an accrual on its books and records for various employees for amounts in excess of the 480 maximum hours statutory cap. The over-accrual amounts to approximately $2.6 million and represents those employee hours that should be transferred to the Government of the Virgin Islands Employees' Retirement System (GERS) as years of credited service (in lieu of a cash pay-out) towards the individual's service retirement annuity, as per the Territory's labor statutes.

- The compensated absences schedule includes some redundant data and we recommend that the Government examine the contents and eliminate such information. For instance, there are various employees that should not be on the schedule that have accrued balances, negative balances, or zero balances.

Furthermore, we noted that the Government's payroll registers contained various Hospital employees. It is noted that several years ago, the payroll process for Hospital employees was performed simultaneously with that of the Government's and hence, the combined registers. The Hospital now has its own payroll management process. As a result, the Government's payroll registers now contain extra employees that have zero balances when a pay-check run is performed, thereby muddling the reports unnecessarily. We recommend that management consider the need for retaining only the necessary information.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Division of Personnel will attempt to locate requested documents and the Department of Finance (DOF) has changed its policy effective February 20, 2015, instituting the statutory cap for Lump Sum Payment to 480 in accordance with Title 3 V.I.C. Section 511-587. All information is reviewed to ensure balances are accurate and in sync with the Notification of Personnel Action (NOPA) and the ERP Accrual Available Balance before approvals. Since February 20, 2015, NOPA's are not approved with excess hours at the DOF level.

Implementation Date: Fiscal Year 2015 (2nd Quarter)

Person(s) Responsible: The management team of the Division of Personnel and Department of Finance; specifically, Director of Payroll.

Executive Expenses

Finding and Recommendation:

The Government has policies with respect to expense report reimbursements indicating that each business expense must be substantiated with adequate documentation, such as statement of expense, purchase order, approved Government Travel Request, travel voucher, and receipts which, in combination, are sufficient to establish each element of the expenditure.

During our test work, we noted two (2) items where sufficient supporting documents were not available to substantiate executives' expense reimbursements. We identified the exceptions during our sampled procedures. Management should recognize that the potential exists for additional discrepancies.

It is important to produce certain detailed records at specific time periods, and to maintain these records for possible analysis by users. The Government may consider instituting a stricter monitoring process to ensure compliance with stated policies.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Department of Finance (DOF) will coordinate with the Office of the Governor to strengthen, recommunicate, and monitor the business travel reimbursement policy of the Government.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Office of the Governor and Department of Finance.

Finding 2014-011: Workers Compensation Program

The workers compensation program provides for medical costs, death benefits, and lost wages arising from work-related accidents. The program is administered by the Division of Workers' Compensation within the Government's Department of Labor.

Accuracy of the Program Loss Reserves

Finding and Recommendation:

The preferred actuarial approach to determine loss and loss expense reserves is to employ a variety of reserving methods to estimate ultimate losses by accident year. Each method has advantages and disadvantages dependent on such items as the claims environment, the age of the accident year, and stability of the method. From within this range of indicated ultimate losses, a selection is made based on a review of the various methods and actuarial judgment.

We noted that the data underlying the Government's analysis is as of September 30, 2013. A delay in claim payments during the 12 months ended September 30, 2014, resulted in significantly lower paid amounts in the data valued as of September 30, 2014, compared with the prior period evaluation. As such, the Government's actuary concluded that there is no predictive value in the data as of September 30, 2014. Since loss development factors are determined based on the assumption that a percentage of the total reported losses are paid at any given point in time, the application of the paid patterns underlying the Government's loss triangles to the paid losses valued as of September 30, 2014, would have resulted in understating the ultimate values.

Based on hindsight comparisons, we were able to conclude that the actuary's ultimate loss projections are within a range of reasonable estimates. However, actuarial estimates improve as more information becomes available at each maturity. As such, we recommend that the Government consider the following:

- Initiate the development of a formal document describing the processes used in computing and reporting these liabilities in the financial statements.

- Provide a clear reasoning how the Government establishes any subjective assumptions.

- Include explicit explanations for any changes made to methodologies or programs made in the current period that was not present in the prior period valuation.

- For completeness, we suggest constructing a formal Risk Control Matrix and a visual flow chart relating to the valuation processes.

Views of Responsible Officials and Planned Corrective Actions:

The Department of Labor (DOL) and the Worker's Compensation Administration (WCA) concur with the auditor's findings and recommendations.

Action Plan: Workers' Compensation claims are handled manually; therefore, assumptions of existing claim losses are unpredictable as it takes on claim (severe injury) to change future claims costs and/or payouts as healthcare rates vary; and based on the availability of funds.

Projection is made based on previous year's history. The DOL/WCA purchased the ERIC System Risk Management software. Utilization of the Risk Management software will enable WCA to prepare realistic medical and indemnity reserves for all claims, which will result in providing the Department of Finance (DOF) with end of fiscal year realistic subjective assumptions based on actual claims history. Implementation of the ERIC System will allow the DOL/WCA and the DOF to generate various risk management reports and have access to claims records.

Implementation Date: Automation of the Workers' Compensation claims process:

- October – Planning and Scheduling Virtual Reviews
- December 1, 2015 – Testing
- January 15, 2016 – Live

Integration of the ERIC System with the DOF and WCA:

- Currently being discussed

Person(s) Responsible: The management team of the Department of Labor and Department of Finance; specifically, the WCA Director, and DOL IT personnel.

Government Insurance Fund

Finding and Recommendation:

We noted a financial strain (from claims) due to a mismatch from the Government's employers' premium contributions into the *Government Insurance Fund*. For the years ended September 30, 2014 and 2013, the ratio of expenditures to income has been 157% and 140%, respectively. It appears that losses since the financial crisis of 2008 have easily exceeded the premiums collected *sans* the impact of operational costs to run the Workers Compensation portion of the Fund. In order to maintain continued solvency, we recommend that management consider an evaluation of the claims adjudication and related processes (as an attempt to lower the costs) in lieu of making any increases to the likely mandated employer contribution formulas. Management may also consider embarking on an advisory path to consider some alternatives that could minimize the severity of any losses.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Executive and Legislative branches of Government will collaborate to implement various recommendations of its actuary in an effort to provide for the long-term financial viability of the Fund.

Implementation Date: Fiscal Year 2016.

Person(s) Responsible: The Governor, President, V.I. Legislature and Commissioner, and Department of Finance.

Finding 2014-012: Information Technology Environment

We reviewed various applications and systems which are utilized for the Government's day-to-day processing needs.

Finding and Recommendation:

We noted the following during our procedures:

- At the present time, the program change process is informal in nature, including business user approvals to migrate the requested changes into production for the following applications:
  - VIDOLA$
  - CARIBS
  - Property Information System
  - VITAX
  - ScanOptics
  - RawData
- Data and program code integrity surrounding the VIDOLA$, VITAX, ScanOptics, and RawData applications is not fully maintained during the migration process. We noted that the Oracle programmer(s) and/or IT consultants have administrative access which results in an ability to migrate program changes into the production environment resulting in a segregation of duty conflict.
- A separate test environment, for requested VIDOLA$ program changes, for development and assessment purposes, is not maintained.
- Access to additional system privileges to the Red Hat operating system (which supports the VIDOLA$ application) is provided via a root account. We noted that the Oracle programmer(s) have root access to the operating system.
- Direct access to the SQL database management system which supports the ScanOptics and RawData applications is provided to IT Consultants and internal IT employees via a shared login account and password.
- For VITAX, ScanOptics, and RawData, application level administrative access is provided to non-IT personnel as well as IT consultants. This results in a segregation of duty conflict.
- Administrative access rights to the Windows domain at the Bureau of Internal Revenue is provided to non-IT personnel as well as IT consultants. This results in a segregation of duty conflict.
- For CAMA, application level administrative access is provided to non-IT personnel including the Tax Assessor, Deputy Tax Assessor, and Assistant Tax Assessor. This results in a segregation of duty conflict.

- There are no formal recertifications of user access security rights performed for the Windows, CAVU, or Property Information System applications.

- The password and account lockout configurations have not been implemented to enforce strong passwords on the Windows domain at the Lieutenant Governor's Office and the CAVU, CAMA, and Property Information System applications.

Inappropriate system modifications to applications can cause incorrect calculations and compromise functionality. The Government may consider evaluating its documentation process to mitigate the risk of any potential change being implemented without the appropriate approval(s).

Further, inappropriate or excessive access may result in unauthorized data changes or transactions. The Government may consider evaluating its user access and administration (user addition, modification, removal) controls in order to ensure that appropriate access is granted.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan I: The Bureau of Internal Revenue (the Bureau) acknowledges that there are issues surrounding the IT area that must be addressed to ensure the integrity and protection of the systems. The Bureau will establish change management policies and procedures that would require formal notice of approval of changes, followed by accepted processes for the migration of changes into production. The Bureau will research the ability to change system applications from universal administrative credentials to a user specific/rule specific credential model and establish and implement policies to prevent segregation of duties conflicts.

Action Plan II: The Virgin Islands Department of Labor (VIDOL) will adapt standards prescribed by the National Institute of Standards and Technology that directly relate to change and configuration management. As this endeavor seeks to retrain the thought process of technical and program staff to work in harmony, a project plan will be need to be created and implemented.

The change management plan will provide the timeline, milestones, resources, and framework to identify needed tasks and produce required outcomes. Some expected outcomes include (a) creation of policies that will provide guidance and authority; (b) creation of governance roles that will spell out the responsibilities of each level of governance; (c) change management core components of request, approval, planning, testing, scheduling, communication, implementation, and documentation and follow-up; and (d) security considerations for each level of the core components.

Data and program code integrity as well as segregation of duties are critical to the reduction of risk for the VIDOLA$ application. VIDOL will focus on mitigating risks of fraud by ensuring that no single individual has the authority to execute program changes without checks and balances. VIDOL will implement structured program change procedures in accordance with best practices and established industry standards. Segregation of duties guidelines and policies will be included in the change management process.

VIDOL is working to create a functional test environment for the VIDOLA$ application. VIDOL is working in conjunction with the Bureau of Information Technology (BIT) to obtain the needed hardware to upgrade the production application server and leverage the same hardware to implement a test server. The project is moving forward as both agencies are working out details on hardware and related software licensing. Partnering with BIT will provide VIDOL with the ability to utilize the latest in virtualization technology to maximize all aspects of a test environment snapshots, deployment procedures, cloning, and performance analysis.

Policies and guidelines will be created to govern the security of information systems related to administrative access to systems. Described in these policies will be the least level of access needed for individuals to complete needed tasks. Additionally the root level access to the operating system will be terminated for programmers. Audit, authorization, and accountability logs will be maintained for review, action, and accountability.

Action Plan III: The Department of Human Services will create a formal procedure for the program change process within the CARIBS System to include documentation of test procedure and approval forms.

Implementation Date: Bureau of Internal Revenue - December 31, 2015

VIDOL – Change management plan will be completed in one quarter or less. Expected date of implementation is November 16, 2015.

Department of Human Services – January 31, 2016

Person(s) Responsible: The management team of the Bureau of Internal Revenue (including the Director of Processing and IT), Lieutenant Governor's Office, Department of Labor, specifically, the IT Director, and the management team of Division of Family Assistance of the Department of Human Services.

Finding 2014-013: Collateralizing Deposits

Finding and Recommendation:

Public entities should establish and implement collateralization procedures, including procedures to monitor their collateral. The value of pledged collateral should generally be marked to market monthly. Some statutes dictate a minimum margin level for collateral based on deposit levels. However, it is recommended that margin levels should be at least 102%, depending on the liquidity and volatility of the collateral pledged.

During our procedures, we noted non-compliance with the aforementioned provision as follows:

- Two (2) instances where the monthly collateral held by one of the Government's investment custodians was less than 102% of the value of the particular deposits for that month.

- Two (2) instances where the Government could not provide us the monthly collateral reports for an investment custodian.

We recommend that Government personnel continue to closely monitor the collateral held by custodians, to ensure the Government remains in compliance with the requirements.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The Division of Treasury will continue to closely monitor the collateral held by custodians, by evidencing their review (e.g., signature, initial, date, etc.) on the periodic reports submitted by custodians, to ensure the Government remains in compliance with the collateral requirements.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Department of Finance; specifically, the Director of Treasury.

Finding 2014-014: Budgetary Compliance

Finding and Recommendation:

The Government makes regular modifications to the budget which may include reallocations, appropriation transfers, and budget reductions based on revenue projections. During our procedures, we noted the following:

- Management was unable to provide a detailed schedule of all transfers between utilities and general expenditures for the fiscal year under audit.

- Management was unable to provide supporting documentation for transactions related to budget reductions.

- Supporting documentation for four (4) transactions in our sample of appropriation modifications was not available.

We recommend that Government personnel continue to closely monitor the budgetary compliance requirements and ensure that adequate documentation supporting changes, modifications, and revisions is maintained.

Views of Responsible Officials and Planned Corrective Actions:

The Government concurs with the auditor's findings and recommendations.

Action Plan: The human and technological capacity of the Budget Administration Unit within the Office of Management and Budget is being strengthened. This unit will maintain detailed schedules of changes, modifications, and revisions to the budget.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The Management Team of the Office of Management and Budget; specifically, the Deputy Director of Operations and the Associate Director of Budget Administration.

Section III – Federal Award Findings and Questioned Costs

Finding 2014-015: Cash Management

Program:	***Government Department/Agency:***
U.S. Department of Agriculture	Department of Human Services (DHS)

State Administrative Matching Grants for the
Supplemental Nutrition Assistance Program
CFDA #: 10.561
Award #: 1VI400408
Award Year: 10/01/2013 – 09/30/2014

Criteria – The Cash Management Improvement Act of 1990 (CMIA) agreement between the Government of the United States Virgin Islands and the U.S. Department of Treasury requires that established funding techniques and clearance patterns be complied with when requesting Federal funds.

The CMIA agreement stipulates that funding for payments to vendors and all other costs require the use of an average clearance funding technique and a clearance pattern of 4 days for this program. The CMIA agreement also stipulates that funding for payments for salaries requires the use of an average clearance funding technique and a clearance pattern of 0 days for this program. These techniques require DHS to minimize the time that elapses between the payment of the disbursement and the request for reimbursement.

Condition – We reviewed 9 out of the 30 drawdowns made during fiscal year 2014 and noted that the 9 sampled drawdowns, totaling $1,892,484, were not in accordance with the provisions of the CMIA agreement.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the provisions of the CMIA agreement. Total fiscal year 2014 drawdown requests were $5,131,877.

Effect – DHS is not in compliance with the provisions of the CMIA agreement. The opportunity to use the money for other immediate cash needs is unnecessarily delayed when funds are not requested timely.

Cause – DHS did not appear to exercise due diligence in requesting Federal funds consistent with the CMIA agreement and its actual cash needs.

Recommendation - We recommend that DHS comply with the provisions of the CMIA agreement and request Federal funds consistent with the CMIA agreement funding techniques and clearance patterns for this program.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: With the assistance of the Department of Finance, DHS has implemented a process to run check registers from the Enterprise Resource Planning (ERP) system after each check run. This process will improve the timeliness of drawdowns for vendor payments. In addition, DHS continues to run payroll from the ERP system to draw funds according the regulations of the CMIA agreement and the Standard Operating Policy & Procedures (SOPP) guidelines, as developed by the Department of Finance.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Chief Financial Officer – DHS

Finding 2014-016: Equipment and Real Property Management

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

State Administrative Matching Grants for the
Supplemental Nutrition Assistance Program
CFDA #: 10.561
Award #: 1VI400408
Award Year: 10/01/2013 – 09/30/2014

Criteria – Per the A-102 Common Rule, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and conditions of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Further, a physical inventory of equipment should be taken at least once every 2 years and reconciled to the equipment records along with the usage of an appropriate control system to safeguard and maintain equipment.

Condition – The Government's Department of Property and Procurement (DPP) maintains the equipment register for DHS. DPP was unable to provide complete property records which met the requirements of the A-102 Common Rule.

1. We selected a current year equipment addition, from the general ledger, and noted that it was not included on the equipment register as provided and maintained by DPP.
2. We selected a sample of 5 equipment items for inspection; 3 of the 5 sampled items were not at the specified location(s) as noted on the DPP equipment register.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with specified requirements.

Effect – There is a risk that inadequate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations resulting in a return of Federal awards received.

Cause – The Government does not appear to have a process in place to adequately monitor equipment acquired with Federal funds.

Recommendation – We recommend that DHS and DPP improve internal controls to ensure adherence to Federal regulations related to equipment and its related maintenance. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing such assets.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DHS has recently hired an Asset & Inventory Manager. Staff has begun the reconciliation process of the asset logs provided by the Department of Property and Procurement, inclusive of the location of all assets. DHS will work closely with the Department Division's staff and the Department of Property and Procurement to ensure that the Departments come into compliance with the requirements of the A-102 Common Rule.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Chief Financial Officer – DHS

Finding 2014-017: Matching, Level of Effort, and Earmarking

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Human Services (DHS)

State Administrative Matching Grants for the
Supplemental Nutrition Assistance Program
CFDA #: 10.561
Award #: 1VI400408
Award Year: 10/01/2013 – 09/30/2014

Criteria – As reflected in the OMB Circular A-133 Compliance Supplement "The State is required to pay 50% of the costs of administering the program. Exceptions to this 50% reimbursement rate include 100% grants to:

a. Administer the Employment and Training component of the program (7 CFR section 277.4(b)); and
b. Provide nutrition education and obesity prevention services, beginning October 1, 2010 (7 USC 2036a, Section 241 of Pub. L. No. 111-296, 124 Stat. 3183, December 13, 2010)."

Condition – DHS did not meet the 50% required match of administering the program. During our review of the records in the accounting system, we noted items had been reported as matched local expenditures; however, they only equated to 45% of the required match.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with specified requirements.

Effect – DHS is in violation of the stated compliance requirement.

Cause – DHS does not appear to have adequate policies and procedures in place to ensure complete compliance with the matching requirement.

Recommendation – We recommend that DHS deploy resources that are given the responsibility to ensure periodic monitoring and compliance of the match requirement throughout the fiscal year.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: The mapping of expenditures in the Government's Enterprise Resource Planning (ERP) accounting system has been updated to ensure DHS meets the required 50% matching, as required by the program guidelines. The SNAP Program is matched by 50% local funds. These expenditures are shown in the Flexible reports for both Federal and local matching accounting organization codes.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Chief Financial Officer – DHS

Finding 2014-018: Activities Allowed or Unallowed

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Temporary Assistance for Needy Families
CFDA #: 93.558/93.558 – ARRA
Award #: 1401VITANF
Award Year: 10/01/2013 - 09/30/2014

Criteria – Attachment A, OMB Circular No. 87 Section C (1)(j), states that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be allocable for Federal awards under provisions of the Circular.

Condition – We noted that the grant award issued to the Government includes funds for TANF (CFDA 93.558) and the Family Support Payments to States-Assistance Payments, Adult Programs in the Territories (CFDA 93.560). Upon further procedures, we noted that TANF expenditures in fiscal year 2014, included certain costs which fell under the scope of the Family Support Payment program.

Questioned Costs – $776,235

Context – This is a condition identified per review of DHS' compliance with specified requirements. Family Support Payment program expenditures, aggregating to $1,483,671 had been reflected as TANF public assistance expenditures. However, the allowable funded amount for the Family Support Payment program for grant year 2014 was only $707,436. Therefore, TANF funding, aggregating to $776,235, had been utilized for the Family Support Payment program.

Effect – DHS is not in compliance with stated requirements and program directives governing the grant and controls over the proper monitoring of program expenditures do not appear to be functioning as intended.

Cause – Management does not appear to have adequate policies and procedures in place to ensure compliance with applicable allowable costs principles, including appropriate identification of expenditures between different funded awards.

Recommendation – We recommend that DHS strengthen its processes with respect to setting up and charging expenditures between various grant awards and ensuring that the accounting system reflects the appropriate funded value by grant (CFDA #). We also recommend that DHS enhance its review process to properly determine the activities of each grant and reflect them accordingly.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DHS will implement the following:

1. DHS will strengthen the program and fiscal monitoring by establishing separate accounts in the Government's Enterprise Resource Planning (ERP) accounting system based on the CFDA numbers as noted on the TANF grant awards received quarterly.
2. DHS will submit to ACF Quarterly statistical data to support services provided to participants in order to monitor program activities and expenditures and make any necessary adjustments timely.
3. Fiscally, the program will be monitored to ensure that the funding shall not exceed funding under each CFDA number.
4. DHS will be reaching out to ACF for Technical Assistance and guidance in the monitoring procedures and policies which will further strengthen DHS administrative process in providing services for its participants.
5. DHS will ensure that procedures are implemented to gather monthly expenditure reports from the business office in order to monitor program spending in fiscal year 2016.
   - At the level of Division Administrator, key personnel will be assigned to work in conjunction with the business office to reconcile expenditure reports on a monthly basis.
   - The Division Administrator will review expenditure reports with Program Directors on a monthly basis.
6. The agency will review and revise current state plans to reflect updated determination procedures designed to enable the effective utilization of funding under TANF.
   - The agency will align determination procedures for the Aid to Disabled (AD) population with the social security disability impairment guidelines, which will allow more accurate determination of eligibility for this category. The agency will develop a contingency plan to address the needs of individuals who do not meet the impairment criteria.
   - The agency will develop a procedure to identify individuals in the Aid to Aged (AA) population who can become financially independent through placement in our Community Senior Employment Program (CSEP).
   - The agency will implement revaluation procedures in accordance with program regulations for the Aid to the Blind (AB) population.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Chief Financial Officer – DHS

Finding 2014-019: Cash Management

Program:
U.S. Department of Health and Human Services

Temporary Assistance for Needy Families
CFDA #: 93.558/93.558 – ARRA
Award #: 1401VITANF
Award Year: 10/01/2013 - 09/30/2014

Government Department/Agency:
Department of Human Services (DHS)

Criteria – The Cash Management Improvement Act of 1990 (CMIA) agreement between the Government of the United States Virgin Islands and the U.S. Department of Treasury requires that established funding techniques and clearance patterns be complied with when requesting Federal funds. The CMIA agreement stipulates that funding for payments to vendors and all other costs require the use of an average clearance funding technique and a clearance pattern of 4 days for this program. These techniques require DHS to minimize the time that elapses between the payment of the disbursement and the request for reimbursement.

In addition, the CMIA agreement stipulates that where estimated expenditures are used to determine the amount of the drawdown, the Government will indicate how the estimated amount is determined and when and how the Government will reconcile the difference between the estimate and the actual expenditures.

Further, pursuant to the A-102 Common rule and 31 Code of Federal Regulations (CFR) Part 205, cash drawdown requests for Federal funds must be supported and proper documentation maintained. It also requires that the amount of the reimbursement request should be closely matched to the amount of the actual disbursement.

Condition – We reviewed 9 out of 37 drawdowns made during fiscal year 2014, totaling $1,819,450, and noted the following:

- 3 out of the 9 sampled drawdowns did not comply with the average clearance pattern.
- 5 out of the 9 sampled drawdowns did not comply with the requirement on estimates and reconciliation of estimates.
- An instance where the cash receipt journal had not been appropriately reviewed and authorized.

We also noted the usage of non-government issued electronic mail addresses when completing drawdowns.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the provisions of the CMIA agreement and general compliance principles. Total fiscal year 2014 drawdown requests were $2,301,444.

Effect – DHS is not in compliance with the stated provisions. The opportunity to use the money for other immediate cash needs is unnecessarily delayed when funds are not requested timely. Additionally, the use of personal or non-government issued electronic mail addresses can result in a limitation of DHS' records with respect to significant correspondence or transactions that may have occurred. Further, certain sensitive and protected information can be more vulnerable to security risks.

Cause – DHS did not appear to exercise due diligence in requesting Federal funds consistent with the CMIA agreement and its actual cash needs and in following internal procedures over reviews and authorizations. Additionally, DHS is not following Government guidelines regarding the use of personal electronic mail while conducting Government business.

Recommendation - We recommend that DHS comply with the provisions of the CMIA agreement and request Federal funds consistent with the CMIA agreement funding techniques and clearance patterns for this program and continue to be vigilant in following internal procedures over reviews and authorizations. Like every organization, the Government provides electronic mail addresses to every employee upon hiring. These should be utilized when conducting Government business, both within and outside the organization.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: With the assistance of the Department of Finance, DHS has implemented a process to run check registers from the Enterprise Resource Planning (ERP) system after each check run. This process will improve the timeliness of drawdowns for vendor payments. In addition, DHS continues to run payroll from the ERP system to draw funds according the regulations of the CMIA agreement and the Standard Operating Policy & Procedures (SOPP) guidelines, as developed by the Department of Finance.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Chief Financial Officer – DHS

Finding 2014-020: Eligibility

Program:
U.S. Department of Health and Human Services

Temporary Assistance for Needy Families
CFDA #: 93.558/93.558 – ARRA
Award #: 1401VITANF
Award Year: 10/01/2013 - 09/30/2014

Government Department/Agency:
Department of Human Services (DHS)

Criteria – The Government's overall plan provides the specifics for its definition of financially needy which it uses in determining beneficiary eligibility. Plan and eligibility requirements must also comply with various Federal requirements.

OMB Circular A-133 Subpart C Section .300 (b) states, "the auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition – DHS is responsible for determining participant eligibility for the TANF program. DHS is utilizing the CARIBS system to maintain participant information, as well as to evaluate eligibility of applicants for the program. During our understanding of the eligibility process, we noted that DHS did not have consistent monitoring processes in place to review the eligibility determinations made by the in-take caseworkers. Currently, DHS is performing a random review of the caseworkers' determinations of eligible participants.

In our review of 40 participant case files, we identified the following:

- DHS was unable to provide 1 participant case file for our review.
- For 2 participants, there was no documentation in the case files supporting the requirement of the participant's child being enrolled in school.
- For 1 participant, there was no documentation in the case file to support the necessary citizenship requirements.
- For 3 participants, there was no documentation in the case files to support the necessary residency requirements.
- For 5 participants, there was no documentation in the case files to support cooperation in an effort to establish and enforce child support requirements.
- There were 7 cases where the participants were receiving benefits while not in compliance with the job participation requirements.
- There was a participant who had received TANF benefits twice in the same period. This was due to an oversight when the participant transferred from one district to another and the CARIBS system had not been updated for the change in residence.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with specified requirements.

Effect – Noncompliance with program requirements could result in disallowances of costs and participants could be receiving benefits that they are not entitled to receive under the program.

Cause – DHS does not appear to have adequate policies and procedures in place to ensure a consistent and systematic review of the data in its participant case files.

Recommendation – We recommend that DHS perform regular reviews of the data in its participant case files to ensure accuracy and completeness and confirming that only eligible participants are receiving the entitled benefits. Additional levels of review by a supervisor or manager can provide more timely quality assurance oversight over the eligibility process.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DHS will ensure that each eligibility case worker documents the entire interview thoroughly, retrieves the appropriate verifications, and ensures that the participant is registered for the appropriate programs, as needed. An administrative memo will be issued to staff addressing the findings, which will be reiterated during month-end meetings and monitored for compliance during supervisory reviews.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Program Administrator – DHS

Finding 2014-021: Reporting

Program:
U.S. Department of Health and Human Services

Temporary Assistance for Needy Families
CFDA #: 93.558/93.558 – ARRA
Award #: 1401VITANF
Award Year: 10/01/2013 - 09/30/2014

Government Department/Agency:
Department of Human Services (DHS)

Criteria – In accordance with the OMB Circular A-133 Compliance Supplement for this program, each State or Territory must file various financial, programmatic, and special reports. Additionally, the requirements necessitate that all submitted reports should be supported by the underlying performance records and presented in accordance with program requirements.

Condition – We reviewed 7 out of the 12 quarterly reports (ACF-196-TR) reports, due for existing projects, as submitted by DHS in fiscal year 2014, and noted the following:

- 3 instances where the accounting records to support the financial information in the quarterly reports was not available.
- 6 quarterly reports submitted had failed to meet the respective due dates.
- The quarterly report for December 31, 2013, had not been completed and submitted as of date of testing.

We also reviewed the annual report (ACF-204) and noted that the financial information did not agree with the supporting documents, the report was submitted past its due date, and there was no evidence of the report being reviewed by the program administrator.

During our review of the ACF-199, *TANF Data Report*, we did not note evidence that the information submitted for the required TANF disaggregated data on families receiving TANF had been reviewed and approved prior to submission to the Federal agency. In addition, during our sampled procedures over 40 participant cases reviewed, 36 files were noted to contain inconsistent information when comparing the case file documents and the data included in the *TANF Data Report*.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with specified requirements.

Effect – Inaccurate information may have been reported to the Federal government.

Cause – It appears that policies and procedures, including review over reporting procedures were not functioning as intended. Further, DHS does not have adequate control over maintenance of the underlying documentation used in preparing various reports.

Recommendation – We recommend that DHS reevaluate its policies and procedures to ensure proper monitoring and review of the required reports by an appropriate official who would ensure the information submitted is complete, accurate, and consistent.

DHS should also review its records retention policies to ensure that complete documentation is maintained to support information included in the various required reports.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DHS has requested Technical Assistance (TA) from Federal personnel. A request will be made to the Virgin Islands Office of Management & Budget to separately post the various CFDA Numbers shown on the TANF Grant award. This request will also be made to ACF to have separate grant awards to ensure there is a clear understanding that correctly identifies separate funding. This will allow for reports that track separate expenditures.

In addition, a separate Chart of Accounts will be established in the Enterprise Resource Planning (ERP) system. These steps will strengthen the tracing of funds to a level of expenditures adequate to provide identification of expenditures separately. This will allow for reports supported by accounting records. Controls will be implemented to ensure timely preparation of all reports and timely filing.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Chief Financial Officer/Program Administrator – DHS

Finding 2014-022: Special Tests and Provisions - Child Support Non-Cooperation

Program:
U.S. Department of Health and Human Services

Temporary Assistance for Needy Families
CFDA #: 93.558/93.558 – ARRA
Award #: 1401VITANF
Award Year: 10/01/2013 - 09/30/2014

Government Department/Agency:
Department of Human Services (DHS)

Criteria – If the State or Territory agency responsible for administering the overall plan approved under Title IV-D of the Social Security Act determines that an individual is not cooperating with the State or Territory in establishing paternity, or in establishing, modifying, or enforcing a support order with respect to a child of the individual, and reports that information to the State or Territory agency responsible for TANF, the State or Territory agency must:

(1) Deduct an amount equal to not less than 25% from the TANF assistance that would otherwise be provided to the family of the individual, and

(2) May deny the family any TANF assistance. The U.S. Department of Health and Human Services may penalize a State or Territory for up to 5% of the State Family Assistance Grant (SFAG) for failure to substantially comply with this required child support program (42 USC 608(a)(2) and 609 (a)(8); 45 CFR sections 264.30 and 264.31).

Condition – From a review of 40 participant case files, we noted 5 instances where DHS was unable to provide supporting documentation to evidence the cooperation of the TANF participant in establishing paternity or in establishing, modifying, or enforcing a support order with respect to a child of the participant.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with specified requirements.

Effect – We were unable to determine if DHS properly reduced or terminated the participant's TANF assistance as required under the program. Noncompliance with program requirements could result in disallowances of costs and participants could be receiving benefits that they are not entitled to receive under the program.

Cause – DHS does not appear to have adequate policies and procedures in place to ensure a consistent and systematic review of documentation and file maintenance over participant case files.

Recommendation – We recommend that DHS perform regular reviews of the data in its participant case files to ensure accuracy and completeness. DHS should also review its records retention policies to ensure that complete documentation is maintained, safeguarded, and available for review.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DHS has a process in place for establishing cooperation with Paternity and Child Support enforcement. DHS will issue an administrative memo to its staff emphasizing the importance of retaining a copy of the Assignment of Rights, as well as other documents used as evidence in establishing cooperation with DHS/TANF case file process.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Chief Financial Officer/ Program Administrator – DHS

Finding 2014-023: Special Tests and Provisions - Penalty for Refusal to Work

Program:
U.S. Department of Health and Human Services

Temporary Assistance for Needy Families
CFDA #: 93.558/93.558 – ARRA
Award #: 1401VITANF
Award Year: 10/01/2013 - 09/30/2014

Government Department/Agency:
Department of Human Services (DHS)

Criteria – A State or Territory agency must reduce or terminate the assistance payable to the family if an individual in a family receiving assistance refuses to work, subject to any good cause or other exemptions established by the State or Territory. The U.S. Department of Health and Human Services may penalize the State or Territory by an amount not less than 1% and not more than 5% of the State Family Assistance Grant (SFAG) for violation of this provision (42 USC 609(a)(14); 45 CFR sections 261.14, 261.16, and 261.54).

Condition – From a review of 40 participant case files, we noted 2 instances where DHS was unable to provide support that the participant receiving benefit assistance was not working and/or refused to work without the appropriate exemption.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with specified requirements.

Effect – We were unable to determine if DHS properly reduced or terminated the participant's TANF assistance as required under the program. Noncompliance with program requirements could result in disallowances of costs and participants could be receiving benefits that they are not entitled to receive under the program.

Cause – DHS does not appear to have adequate policies and procedures in place to ensure a consistent and systematic review of documentation and file maintenance over participant case files.

Recommendation – We recommend that DHS perform regular reviews of the data in its participant case files to ensure accuracy and completeness. DHS should also review its records retention policies to ensure that complete documentation is maintained, safeguarded, and available for review.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: Two files could not be found because they were misplaced by an outside vendor. Controls have been implemented to safeguard all files. Active collaboration with participants will ensure assistance is properly administered.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Program Administrator – DHS

Finding 2014-024: Special Tests and Provisions - Penalty for Failure to Comply with Work Verification Plan

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Temporary Assistance for Needy Families
CFDA #: 93.558/93.558 – ARRA
Award #: 1401VITANF
Award Year: 10/01/2013 - 09/30/2014

Criteria – The State or Territory agency must maintain adequate documentation, verification, and internal control procedures to ensure the accuracy of the data used in calculating work participation rates. In so doing, it must have in place procedures to (a) determine whether its work activities may count for participation rate purposes; (b) determine how to count and verify reported hours of work; (c) identify who is a work-eligible individual; and (d) control internal data transmission and accuracy. Each State or Territory agency must comply with its U.S. Department of Health and Human Services approved Work Verification Plan (WVP) in effect for the period that is audited.

The Federal agency may penalize the State by an amount not less than 1% and not more than 5% of the State Family Assistance Grant (SFAG) for violation of this provision (42 USC 601, 602, 607, and 609); 45 CFR sections 261.60, 261.61, 261.62, 261.63, 261.64, and 261.65).

Condition – From a review of 40 participant case files, we noted 1 instance where DHS was unable to obtain the time and attendance sheet of a participant receiving benefit assistance.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with specified requirements.

Effect – We were unable to determine if DHS fully complied with the WVP in determining countable hours for the work participation rate and identifying work-eligible individual(s). Noncompliance with program requirements could result in disallowances of costs and participants could be receiving benefits that they are not entitled to receive under the program.

Cause – DHS does not appear to have adequate policies and procedures in place to ensure a consistent and systematic review of documentation and file maintenance over participant case files.

Recommendation – We recommend that DHS perform regular reviews of the data in its participant case files to ensure accuracy and completeness. DHS should also review its records retention policies to ensure that complete documentation is maintained, safeguarded, and available for review.

Views of Responsible Officials and Planned Corrective Actions –The Government concurs with the auditor's findings and recommendations.

Action Plan: An administrative memo will be written and disseminated to the eligibility workers on how to calculate work participation rates. Further, a tracking system will be developed for the timely submission and tracking of time sheets.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Program Administrator – DHS

Finding 2014-025: Special Tests and Provisions - Income Eligibility and Verification System

Program:
U.S. Department of Health and Human Services

Temporary Assistance for Needy Families
CFDA #: 93.558/93.558 – ARRA
Award #: 1401VITANF
Award Year: 10/01/2013 - 09/30/2014

Government Department/Agency:
Department of Human Services (DHS)

Criteria – Each State or Territory shall participate in the Income Eligibility and Verification System (IEVS) required by section 1137 of the Social Security Act as amended. Under the overall plan, the State or Territory is required to coordinate data exchanges with other Federally assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies. Specifically, the State or Territory is required to request and obtain information as follows (42 USC 1320b-7; 45 CFR section 205.55):

a. Wage information from the State Wage Information Collection Agency (SWICA) should be obtained for all applicants at the first opportunity following receipt of the application, and for all recipients on a quarterly basis.
b. Unemployment Compensation (UC) information should be obtained for all applicants at the first opportunity, and in each of the first 3 months in which the individual is receiving aid. This information should also be obtained in each of the first 3 months following any recipient-reported loss of employment. If an individual is found to be receiving UC, the information should be requested until benefits are exhausted.
c. All available information from the Social Security Administration (SSA) for all applicants at the first opportunity.
d. Information from the U.S. Citizenship and Immigration Services and any other information from other agencies in the State or Territory or in other States that might provide income or other useful information.
e. Unearned income from the Internal Revenue Service (IRS).

Condition – We noted that DHS did not have the necessary policies and procedures in place for establishing and implementing the required IEVS system for data matching and the timely verification and use of such data.

- We noted that reports generated from the automated system between DHS and the Virgin Islands Department of Labor (VIDOL) are approximately 6 months behind each quarter.
- The VIDOL report for the quarter ended June 30, 2014, was not available for our review.
- From a review of 40 participant case files, we noted 19 instances where the participant received income within the quarterly period tested; however, the IEVS data reported in the VIDOL system was not considered in determining the amount of TANF benefits awarded to the participant.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with specified requirements.

Effect – Noncompliance with program requirements could result in disallowances of costs and participants could be receiving benefits that they are not entitled to receive under the program.

Cause – DHS does not appear to have adequate policies and procedures in place to ensure a consistent and systematic review of documentation and file maintenance over participant case files.

Recommendation – We recommend that DHS improve internal controls to ensure adherence to Federal regulations related to IEVS. There should be timely coordination and communication amongst all Government departments and/or agencies to coordinate data exchanges with respect to other Federally assisted benefit programs and to request and use income and benefit information when making the necessary determinations.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: There was a technical issue with VIDOL, which has been rectified. DHS will continue the line of communication with VIDOL and reiterate the importance of providing timely reports in order to have current and up-to-date information.

Implementation Date: Fiscal Year 2015 and ongoing

Person(s) Responsible: Chief Financial Officer – DHS

Finding 2014-026: Cash Management

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Head Start
CFDA #: 93.600
Award #: 02CH3011/01, 02CH3011/02
Award Year: 07/01/2013 – 06/30/2015

Criteria – The Cash Management Improvement Act of 1990 (CMIA) agreement between the Government of the United States Virgin Islands and the U.S. Department of Treasury requires that established funding techniques and clearance patterns be complied with when requesting Federal funds.

The CMIA agreement stipulates that funding for payments to vendors and all other costs require the use of an average clearance funding technique and a clearance pattern of 4 days for this program. The CMIA agreement also stipulates that funding for payments for salaries requires the use of an average clearance funding technique and a clearance pattern of 0 days for this program. These techniques require DHS to minimize the time that elapses between the payment of the disbursement and the request for reimbursement.

Condition – We reviewed 9 out of 31 drawdowns made during fiscal year 2014 and noted that the 9 sampled drawdowns, totaling $3,439,193, were not in accordance with the provisions of the CMIA agreement.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the provisions of the CMIA agreement and general compliance principles. Total fiscal year 2014 drawdown requests were $8,600,601.

Effect – DHS is not in compliance with the provisions of the CMIA agreement. The opportunity to use the money for other immediate cash needs is unnecessarily delayed when funds are not requested timely.

Cause – DHS did not appear to exercise due diligence in requesting Federal funds consistent with the CMIA agreement and its actual cash needs.

Recommendation - We recommend that DHS comply with the provisions of the CMIA agreement and request Federal funds consistent with the CMIA agreement funding techniques and clearance patterns for this program.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: With the assistance of the Department of Finance, DHS has implemented a process to run check registers from the Enterprise Resource Planning (ERP) system after each check run. This process will improve the timeliness of drawdowns for vendor payments. In addition, DHS continues to run payroll from the ERP system to draw funds according the regulations of the CMIA agreement and the Standard Operating Policy & Procedures (SOPP) guidelines, as developed by the Department of Finance.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Chief Financial Officer – DHS

Finding 2014-027: Davis-Bacon Act

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Head Start
CFDA #: 93.600
Award #: 02CH3011/01, 02CH3011/02
Award Year: 07/01/2013 – 06/30/2015

Criteria – All laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the U.S. Department of Labor (DOL). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Further, non-Federal entities shall include in their construction contracts, subject to the Davis-Bacon Act, a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and DOL regulations.

Condition – We reviewed a construction contract with Federal awards expended during the fiscal year. We noted that DHS had not included the required provision and/or the prevailing wage rate clauses in the contract. In addition, DHS did not have a process in place to obtain copies of the respective payroll and statement of compliance (certified payroll) for contract work performed in order to conduct its requisite review on a timely basis.

Questioned Costs – Not determinable.

Context - This is a condition identified per review of DHS' compliance with specified requirements. Federal expenditures incurred on this contract for fiscal year 2014 aggregated to $1,857,245.

Effect – DHS is in violation of the stated compliance requirements. There is a potential that contractors or subcontractors could have paid their employees less than the prevailing wage rates established by DOL.

Cause – DHS did not strictly implement the terms of the construction contracts and Davis-Bacon Act requirements when monitoring its contractors or subcontractors.

Recommendation – We recommend that DHS re-evaluate its policies and procedures and implement the necessary changes to ensure that the provisions of the Davis-Bacon Act are properly followed. DHS should establish a monitoring process to ensure that responsible project management personnel obtain and review, on a timely basis, the required certified payroll reports for each week in which a contractor or subcontractor's work is performed. In addition, DHS should review all construction contracts in order to ensure the required clauses are included and provisions are communicated timely.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DHS will forward a written request to the Department of Property and Procurement to provide the required provision and prevailing wage rate clause to be included in all Federal contracts. Effective immediately, all copies of the contracts and payroll documents will be housed in the Office of Capital Projects.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Program Administrator – DHS

Finding 2014-028: Equipment and Real Property Management

Program:
U.S. Department of Health and Human Services

Head Start
CFDA #: 93.600
Award #: 02CH3011/01, 02CH3011/02
Award Year: 07/01/2013 – 06/30/2015

Government Department/Agency:
Department of Human Services (DHS)

Criteria – Per the A-102 Common Rule, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and conditions of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Further, a physical inventory of equipment should be taken at least once every 2 years and reconciled to the equipment records along with the usage of an appropriate control system to safeguard and maintain equipment.

Condition – The Government's Department of Property and Procurement (DPP) maintains the equipment register for DHS. DPP was unable to provide complete property records which met the requirements of the A-102 Common Rule.

- We selected a current year equipment addition, from the general ledger, and noted that it was not included on the equipment register as provided and maintained by DPP.
- We selected a sample of 5 equipment items for inspection; 3 of the 5 sampled items were not at the specified location(s) as noted on the DPP equipment register.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with specified requirements.

Effect – There is a risk that inadequate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations resulting in a return of Federal awards received.

Cause – The Government does not appear to have a process in place to adequately monitor equipment acquired with Federal funds.

Recommendation – We recommend that DHS and DPP improve internal controls to ensure adherence to Federal regulations related to equipment and its related maintenance. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing such assets.

Views of Responsible Officials and Planned Corrective Actions –The Government concurs with the auditor's findings and recommendations.

Action Plan: DHS has recently hired an Asset & Inventory Manager. Staff has begun the reconciliation process of the asset logs provided by the Department of Property and Procurement, inclusive of the location of all assets. DHS will work closely with the Department Division's staff and the Department of Property and Procurement to ensure that the Departments come into compliance with the requirements of the A-102 Common Rule.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Chief Financial Officer – DHS

Finding 2014-029: Activities Allowed or Unallowed

Program:
U.S. Department of Health and Human Services

Medical Assistance Program
CFDA #: 93.778/93.778 - ARRA
Award #: Various
Award Year: 07/01/2012 – 09/30/2015

Government Department/Agency:
Department of Human Services (DHS)

Criteria – In accordance with OMB Circular A-102, "Grants and Cooperative Agreements with States and Local Governments," a State or Territory must adopt its own written fiscal and administrative requirements for expending and accounting for all funds, which are consistent with the provisions of OMB Circular A-87, and extend such policies to all subrecipients. These fiscal and administrative requirements must be sufficiently specific to ensure that: funds are used in compliance with all applicable Federal statutory and regulatory provisions, costs are reasonable and necessary for operating these programs, and funds are not used for general expenses required to carry out other responsibilities of a State or Territory or its subrecipients.

Condition – We noted that DHS currently maintains Medicaid expenditures on a cash basis and has not recorded a receivable or a liability for outstanding claims or other related programmatic activities at the end of each fiscal year.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with specified requirements.

Effect – We were unable to conclude on the fiscal and administrative requirements with respect to expending and accounting for all funds related to the Medical Assistance program.

Cause – DHS did not appear to exercise its policies and procedures in an effort to adequately administer the expending and accounting for all funds.

Recommendation – Accounting practices play a key role in proving the accuracy of accounting data and information included in various interim financial statements and/or Federal reports. We recommend that the Government consider allocating adequate resources to properly evaluate the necessary information which can then be used to estimate the Medicaid receivable and liability at each fiscal year-end.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: Costs are incurred during the fiscal year for the Hospitals and Seaview. The Department is in the process of obtaining an independent auditor for the purpose of conducting an audit on the Cost Reports for these facilities. Within the first quarter of fiscal year 2016, the vendor should be selected and the reports will be subsequently reviewed.

Thereafter, cost reports will be independently audited on a periodic basis and shared with the Department of Finance to post in the ERP system as a receivable and/or liability.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The Commissioner and Chief Financial Officer - DHS

Finding 2014-030: Allowable Costs/Cost Principles - Recoveries, Refunds, and Rebates

Program:
U.S. Department of Health and Human Services

Medical Assistance Program
CFDA #: 93.778/93.778 - ARRA
Award #: Various
Award Year: 07/01/2012 – 09/30/2015

Government Department/Agency:
Department of Human Services (DHS)

Criteria - Title 42 CFR section 433.40 requires the following:

(c) Refund of Federal financial participation (FFP) for uncashed checks—(1) General Provisions. If a check remains uncashed beyond a period of 180 days from the date it was issued (i.e., the date of the check), it will no longer be regarded as an allowable program expenditure. If the State or Territory has claimed and received FFP for the amount of the uncashed check, it must refund the amount of FFP received.

(2) Report of Refund: At the end of each calendar quarter, the State or Territory must identify those checks which remain uncashed beyond a period of 180 days after issuance. The State or Territory agency must refund all FFP that it received for uncashed checks by adjusting the Quarterly Statement of Expenditures for that quarter. If an uncashed check is cashed after the refund is made, the State or Territory may file a claim. The claim will be considered to be an adjustment to the costs for the quarter in which the check was originally claimed. This claim will be paid if otherwise allowed by the Act and the regulations issued pursuant to the Act.

(3) If the State or Territory does not refund the appropriate amount as specified in paragraph (c) (2) of this section, the amount will be disallowed.

(d) Refund of FFP for cancelled (voided) checks-(1) General provision. If the State or Territory has claimed and received FFP for the amount of a cancelled (voided) check, it must refund the amount of FFP received.

(2) Report of Refund: At the end of each quarter, the State or Territory agency must identify those checks which were cancelled (voided). The State or Territory must refund all FFP that it received for cancelled (voided) checks by adjusting the Quarterly Statement of Expenditures for that quarter.

(3) If the State or Territory does not refund the appropriate amount as specified in paragraph (c) (2) of this section, the amount will be disallowed.

Condition – DHS is required to identify cancelled and uncashed checks beyond a period of 180 days of issuance at the end of each calendar quarter and refund all FFP received for uncashed checks by adjusting the quarterly CMS-64, *Quarterly Statement of Expenditures for the Medical Assistance Program*. We noted that DHS was not able to readily provide information to ascertain and evidence the identification of cancelled or uncashed checks over 180 days after issuance and refund the corresponding FFP in a timely manner.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of DHS' compliance with specified requirements.

Effect - DHS is potentially not in compliance with 42 CFR section 433.40 which may result in untimely refunds of the FFP to the Federal government. There is also potential for disallowed costs that would never be refunded due to checks remaining uncashed beyond a period of 180 days from the date of issuance.

Cause – DHS does not have adequate policies and procedures in place to request and review the cancelled and uncashed check report on a quarterly basis as required. Furthermore, checks can remain uncashed beyond a period of 180 days from the date of issuance and not be identified.

Recommendation - We recommend that DHS comply with the requirements in 42 CFR section 433.40 and establish adequate policies and procedures to ensure that cancelled and uncashed checks over 180 days from the date of issuance are identified on a quarterly basis and all FFP received for cancelled checks are refunded to the Federal government in a timely manner. In addition, we recommend that DHS identify cancelled and uncashed checks over 180 days after issuance for fiscal year 2014 and refund the amount of FFP and any interest liability incurred as a result of the delay.

View of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DHS implemented a Medicaid Management Information System (MMIS) in August 2013. All providers currently have EFTs and are processed through the Enterprise Resource Planning (ERP) system by the Department of Finance. DHS will request the uncashed check report from the Department of Finance every 180 days to verify if checks were returned uncashed, voided, etc.

Implementation Date: Fiscal Year 2015 and ongoing

Person(s) Responsible: Chief Financial Officer – DHS

Finding 2014-031: Cash Management

Program:
U.S. Department of Health and Human Services

Medical Assistance Program
CFDA #: 93.778/93.778 - ARRA
Award #: Various
Award Year: 07/01/2012 – 09/30/2015

Government Department/Agency:
Department of Human Services (DHS)

Criteria – The Cash Management Improvement Act of 1990 (CMIA) agreement between the Government of the United States Virgin Islands and the U.S. Department of Treasury requires that established funding techniques and clearance patterns be complied with when requesting Federal funds.

The CMIA agreement stipulates that funding for payments to vendors and all other costs require the use of an average clearance funding technique and a clearance pattern of 4 days for this program. The CMIA agreement also stipulates that funding for payments for salaries requires the use of an average clearance funding technique and a clearance pattern of 0 days for this program. These techniques require DHS to minimize the time that elapses between the payment of the disbursement and the request for reimbursement.

Condition – We reviewed 15 out of 55 drawdowns made during fiscal year 2014, totaling $20,579,717, and noted that 14 out of the 15 sampled drawdowns were not in accordance with the provisions of the CMIA agreement. We also noted the usage of non-government issued electronic mail addresses when completing drawdowns.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DHS' compliance with the provisions of the CMIA agreement and general compliance principles. Total fiscal year 2014 drawdown requests were $26,441,398.

Effect – DHS is not in compliance with the stated provisions. The opportunity to use the money for other immediate cash needs is unnecessarily delayed when funds are not requested timely. Additionally, the use of personal or non-government issued electronic mail addresses can result in a limitation of DHS' records with respect to significant correspondence or transactions that may have occurred. Further, certain sensitive and protected information can be more vulnerable to security risks.

Cause – DHS did not appear to exercise due diligence in requesting Federal funds consistent with the CMIA agreement and its actual cash needs and in following internal procedures over reviews and authorizations. Additionally, DHS is not following Government guidelines regarding the use of personal electronic mail while conducting Government business.

Recommendation - We recommend that DHS comply with the provisions of the CMIA agreement and request Federal funds consistent with the CMIA agreement funding techniques and clearance patterns for this program and continue to be vigilant in following internal procedures over reviews and authorizations. Like every organization, the Government provides electronic mail addresses to every employee upon hiring. These should be utilized when conducting Government business, both within and outside the organization.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: With the assistance of the Department of Finance, DHS has implemented a process to run check registers from the Enterprise Resource Planning (ERP) system after each check run. This process will improve the timeliness of drawdowns for vendor payments. In addition, DHS continues to run payroll from the ERP system to draw funds according the regulations of the CMIA agreement and the Standard Operating Policy & Procedures (SOPP) guidelines, as developed by the Department of Finance.

Implementation Date: Fiscal Year 2015 and ongoing

Person(s) Responsible: Chief Financial Officer – DHS

Finding 2014-032: Reporting

Program:	***Government Department/Agency:***
U.S. Department of Health and Human Services	Department of Human Services (DHS)

Medical Assistance Program
CFDA #: 93.778/93.778 - ARRA
Award #: Various
Award Year: 07/01/2012 – 09/30/2015

Criteria - Per the OMB Circular A-133 Compliance Supplement, "Thirty days after the end of the quarter, States electronically submit the CMS-64, *Quarterly Statement of Expenditures for the Medical Assistance Program*. The CMS-64 presents expenditures and recoveries and other items that reduce expenditures for the quarter and prior period expenditures. The amounts reported on the CMS-64 and its attachments must be actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and is available immediately at the time the claim is filed."

Condition – We reviewed two quarterly CMS-64 reports that were required to be submitted for fiscal year 2014 and noted that the two reports had not been submitted within the required timeframe.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of DHS' compliance with specified requirements.

Effect - DHS is in violation of the stated compliance requirement.

Cause - DHS did not appear to exercise due diligence in monitoring the due dates of its reporting requirements.

Recommendation - We recommend that DHS develop and implement policies and procedures to properly submit the CMS-64 within the required timeframe.

View of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: Timely CMS-64 reports shall be submitted. With the implementation of the new Medicaid Management Information System (MMIS), various adjustments are made to the reports to ensure accuracy of all expenditures. Reports were uncertified at times, so adjustments made could not be accounted for within the CMS-64 Federal expenditure report. A request has been made to the Center of Medicaid Services in order to do so.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Chief Financial Officer – DHS

Finding 2014-033: Special Tests and Provisions - Utilization Control & Program Integrity

Program:
U.S. Department of Health and Human Services

Medical Assistance Program
CFDA #: 93.778/93.778 - ARRA
Award #: Various
Award Year: 07/01/2012 – 09/30/2015

Government Department/Agency:
Department of Human Services (DHS)

Criteria - The State or Territory plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State or Territory must have: (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials (42 CFR parts 455, 456, and 1002).

Suspected fraud should be referred to the State or Territory Medicaid Fraud Control Unit (42 CFR part 1007).

The State or Territory Medicaid agency must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services. The agency must have procedures for the ongoing post-payment review, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The State or Territory Medicaid agency may conduct this review directly or may contract with a quality improvement organization (QIO).

Condition - DHS does not have the necessary controls or procedures to safeguard against unnecessary utilization of care and services and to identify, investigate, and refer suspected fraud cases.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of DHS' compliance with specified requirements.

Effect - There may be prolonged, ongoing cases of unnecessary utilization and fraud which may be unnoticed and remain unreported by the program. Funds available are possibly being used inappropriately, with no methodology of properly identifying or tracking the amounts.

Cause - DHS does not have an effective system in place to address the program's requirements.

Recommendation - DHS should reconsider whether it would like to be directly responsible for Utilization Control & Program Integrity, or if the use of a QIO would better suit current needs. Once this is decided, DHS should take the necessary steps to ensure compliance with this requirement. The written procedures should reflect the actual actions to be taken. In the event a QIO is used, DHS should be involved throughout, so that it is aware of the program's vulnerabilities and has the opportunity to make the necessary changes for improvement in a timely manner.

View of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: Additional analytics training for performing post payment reviews was held from February 23, 2015 through February 27, 2015. Information learned in this training will be used to identify possible patterns of billing and utilization concern which could be referred to the DHS Fraud Unit for further investigation. The Fraud Unit Personnel participated in the training. DHS plans to re-establish the coordination with the Virgin Islands Department of Justice to further investigate suspected fraud and to prosecute proven fraud offenders. Additionally, the Virgin Islands Medicaid Program conducts clinical review of all inpatient stays over ten days, as well as onsite visits to the nursing home, including a clinical review of the Patient Care Plans.

Implementation Date: Fiscal Year 2015 and ongoing

Person(s) Responsible: Program Administrator – DHS

Finding 2014-034: Special Tests and Provisions - Medicaid Fraud Control Unit (MFCU)

Program:
U.S. Department of Health and Human Services

Medical Assistance Program
CFDA #: 93.778/93.778 - ARRA
Award #: Various
Award Year: 07/01/2012 – 09/30/2015

Government Department/Agency:
Department of Human Services (DHS)

Criteria – States or Territories are required as part of their Medicaid State plans to maintain a Medicaid Fraud Control Unit (MFCU), unless the Secretary of HHS determines that certain safeguards are met regarding fraud and abuse and waives the requirement.

Condition - The DHS Medical Assistance Program does not have in place a Medicaid Fraud Control Unit. Further, we were not provided with a list of violations of Medicaid laws and regulations.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of DHS' compliance with specified requirements.

Effect - There may be prolonged, ongoing cases of fraud which may be unnoticed and remain unreported by the program. Funds available are possibly being used inappropriately, with no methodology of properly identifying or tracking the amounts.

Cause - DHS does not have an effective system in place to address the program's requirements.

Recommendation - A Medicaid Fraud Control Unit needs to be implemented immediately, as it is a program requirement.

View of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DHS hired a dedicated Fraud Worker and also sent Fraud staff to the National Association for Program Information and Performance Management (NAPIPM) training on MAP Fraud and Quality Control; conducted MAP Fraud and QC training for MAP fraud workers on March 19-20, 2014; conducted meetings in establishing methods or criteria for identifying suspected fraud cases; and drafted a Memorandum of Understanding (MOU) for establishing an agreement with the Attorney General's Office (Virgin Islands Department of Justice) on investigation and prosecution of fraud. Presently, MAP is in the process of identifying a work area for the MAP Fraud Control and Quality Control Unit in the Family Assistance Building in Fredriksted, to ensure that safeguards are met regarding fraud and abuse.

Implementation Date: Fiscal Year 2015 and ongoing

Person(s) Responsible: Program Administrator – DHS

Finding 2014-035: Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Human Services (DHS)

Medical Assistance Program
CFDA #: 93.778/93.778 - ARRA
Award #: Various
Award Year: 07/01/2012 – 09/30/2015

Criteria – The State or Territory Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers. The State or Territory Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. The State or Territory Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements will be established by the State or Territory Plan (42 CFR section 447.253).

Condition – DHS provides Medicaid services to eligible Territory residents through inpatient hospitals and long-term care facilities. These hospitals and facilities include various Territory agencies and third-party service providers. The costs incurred by these facilities are summarized in a cost report that is submitted to DHS. We noted that DHS had not audited cost reports for fiscal year 2014.

Questioned Costs - Not determinable.

Context – This is a condition identified per review of DHS' compliance with specified requirements.

Effect – Without timely audits of the cost reports, DHS has no assurance that the costs incurred by the medical facilities are actual costs incurred. Further, the difference between costs submitted for reimbursement and the costs actually reimbursed result in the use of local, rather than Federal, dollars to fund Medicaid expenditures.

Cause – DHS does not have a process in place to obtain and audit the cost reports.

Recommendation – We recommend that DHS evaluate and develop policies and procedures to obtain and audit the cost reports. This will allow the Government to reduce the time between the Medicaid expenditures being incurred and the ultimate reimbursement from the Federal government.

View of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DHS has submitted a Request for Proposal (RFP) to CMS for review in April 2015 related to the procurement of a contractor to provide Medicaid consultation services, assistance in Medicaid rate setting and rate reconciliation, and performing Medicaid audits of annual Medicare Cost Reports and other supporting information for both hospitals in the U.S Virgin Islands, both FQHCs, and the nursing facility. CMS reviewed the RFP and it provided comments sometime thereafter. In the interim, during a reconciliation process that was completed by DHS, CMS and Mercer consulting group in September 2014, reconciliations were performed and claims adjustments submitted for both hospitals and both FQHCs through fiscal year 2012, based upon the Cost Reports and other supporting information provided by those facilities. In addition, rate adjustments were computed for both hospitals and implemented by DHS.

Implementation Date: Fiscal Year 2015 and ongoing

Person(s) Responsible: Program Administrator – DHS

Finding 2014-036: Special Tests and Provisions – ADP Risk Analysis and System Security Review

Program:
U.S. Department of Health and Human Services

Medical Assistance Program
CFDA #: 93.778/93.778 - ARRA
Award #: Various
Award Year: 07/01/2012 – 09/30/2015

Government Department/Agency:
Department of Human Services (DHS)

Criteria – State or Territory agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State or Territory agencies must perform risk analyses whenever significant system changes occur. State or Territory agencies shall review the ADP system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures and personnel practices. The State or Territory agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR section 95.621).

Condition - DHS uses the Medicaid Management Information System (MMIS) to process Medicaid claims. DHS was unable to provide supporting documentation to evidence the performance of the required ADP Risk Analysis and System Security Review.

Questioned Costs - Not determinable.

Context – This is a condition identified per review of DHS' compliance with specified requirements.

Effect - The absence of policies to ensure these analyses and reviews are performed may lead to physical and data security issues and noncompliance with program requirements. Further, DHS' risk of incomplete or inaccurate data processing, or worse, the risk of fraud, increases.

Cause – DHS' records do not permit a determination as to the sufficiency of the design and operation of key controls surrounding the environment in which the Medicaid claims reside.

Recommendation - We recommend that management should require and review an annual Statement on Standards for Attestation Engagements (SSAE) No. 16 Type 2 report (which superseded the SAS 70 audit standard) to review relevant information regarding the service provider's internal control design and operating effectiveness in which Medicaid claims reside. All issues should be addressed by management. If management becomes aware that such a report will not be available, we recommend that management conduct its own review including performing periodic on-site visits or distributing an internal control questionnaire to the service provider to assist in evaluating the control consciousness of the service provider.

View of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: In order to review relevant information regarding the service provider's internal control design and operating effectiveness, DHS will contract with an independent auditor to conduct the Statement on Standards for Attestation Engagements (SSAE) No. 16 Type 2 report, on an annual basis.

Implementation Date: Fiscal Year 2015 and ongoing

Person(s) Responsible: Program Administrator – DHS

Finding 2014-037: Special Tests and Provisions - Provider Eligibility

Program:
U.S. Department of Health and Human Services

Medical Assistance Program
CFDA #: 93.778/93.778 - ARRA
Award #: Various
Award Year: 07/01/2012 – 09/30/2015

Government Department/Agency:
Department of Human Services (DHS)

Criteria – In order to receive Medicaid payments, providers of medical services must be licensed in accordance with Federal, State, and local laws and regulations to participate in the Medicaid program.

Condition - From a review of 15 providers, we noted that DHS was unable to provide the eligibility determination letter for 1 provider.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of DHS' compliance with specified requirements.

Effect - Noncompliance with program requirements could result in disallowances of costs and ineligible providers could be participating in the program.

Cause - DHS does not appear to have adequate policies and procedures in place to ensure a consistent and systematic review of documentation and file maintenance.

Recommendation - We recommend that DHS perform regular reviews of the data in its files to ensure accuracy and completeness. DHS should also review its records retention policies to ensure that complete documentation is maintained, safeguarded, and available for review.

View of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DHS will ensure that each provider of medical services is licensed in accordance with Federal, State, and local laws and regulations to participate in the Medicaid program. This one item appeared to be an oversight of accurately obtaining and filing supporting documentation. DHS has implemented scanning processes to index supporting documents to each provider enrolled.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Program Administrator – DHS

Finding 2014-038: This finding number was not used.

Finding 2014-039: Activities Allowed or Unallowed

Program:
U.S. Department of Commerce

Coastal Zone Management Administration Awards
CFDA #: 11.419
Award #: Various
Award Year: 10/01/2013 - 09/30/2014

Government Department/Agency:
Department of Planning and Natural Resources (DPNR)

Criteria - Attachment A, OMB Circular No. 87 Section C (1)(j), states that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be allocable for Federal awards under provisions of the Circular.

Condition – We noted that payroll costs for 3 employees working on the Coral Reef Conservation Program (CFDA #11.482) had erroneously been charged to the Coastal Zone Management Administration Awards program.

Questioned Costs - The total amount of payroll costs which had been erroneously charged was $24,485.

Context - This is a condition identified per review of DPNR's compliance with specified requirements. The total amount of annual salaries of the 3 employees was $106,100.

Effect – DPNR is not in compliance with stated requirements and program directives governing the grant and controls over proper monitoring of program expenditures do not appear to be functioning as intended.

Cause – Management does not appear to have adequate policies and procedures in place to ensure compliance with applicable allowable costs principles, including appropriate identification of expenditures between different funded awards.

Recommendation – We recommend that DPNR strengthen its processes with respect to setting up and charging expenditures between various grant awards and ensuring that the accounting system reflects the appropriate funded value by grant (CFDA #). We also recommend that DPNR enhance its review process to properly determine the activities of each grant and reflect them accordingly.

View of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DPNR intends to prepare, monitor, and approve time and effort certification for employees paid solely from the Federal award to support payroll expenses charged to the Federal program. It is important to note that time and attendance records are kept for each employee in accordance with OMB A-87, which requires such record be kept for employees who work on multiple or cost objectives. These records are monitored and approved by the program director. Based on DPNR's standard operating procedures, each employee paid from Federal funds is required to prepare a bi-weekly Time Distribution Form which must be signed and dated by the employee, verified for accuracy, and signed and dated by the supervisor. The forms are given to the administrative staff for the preparation of Time and Attendance Records, and then submitted to the accountants to record and reconcile the bi-weekly payroll.

Implementation Date: 1st Quarter of Fiscal Year 2016

Person(s) Responsible: Director - DBAS and Director - CZM - DPNR

Finding 2014-040: Allowable Costs/Cost Principles - Payroll Activities

Program:
U.S. Department of Commerce

Coastal Zone Management Administration Awards
CFDA #: 11.419
Award #: Various
Award Year: 10/01/2013 - 09/30/2014

Government Department/Agency:
Department of Planning and Natural Resources (DPNR)

Criteria - OMB Circular A-87 requires that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Alternatively, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation.

Condition - We sampled and selected 10 employees and noted that the related time and effort certifications were not available.

Questioned Costs – Not determinable.

Context - This is a condition identified per review of DPNR's compliance with specified requirements. The total amount of payroll expenditures charged to the program in fiscal year 2014 was $103,384.

Effect - DPNR is not in compliance with the provisions of OMB Circular A-87. Failure to properly review and support payroll expenditures can result in noncompliance with laws and regulations along with loss of funding.

Cause – Management does not appear to have adequate policies and procedures in place to ensure compliance with time and effort certification principles.

Recommendation – Where employees work solely on a single Federal program, charges for their salaries and wages should be supported by periodic certifications in accordance with OMB Circular A-87. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages should be supported by personnel activity reports (time and attendance) or equivalent documents in accordance with OMB Circular A-87. Such information should also be monitored and approved by a responsible official of DPNR in a timely manner.

View of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DPNR intends to prepare, monitor, and approve time and effort certification for employees paid solely from the Federal award to support payroll expenses charged to the Federal program.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Director - DBAS and Director – CZM - DPNR

Finding 2014-041: Equipment and Real Property Management

Program:
U.S. Department of Commerce

Government Department/Agency:
Department of Planning and Natural Resources (DPNR)

Coastal Zone Management Administration Awards
CFDA #: 11.419
Award #: Various
Award Year: 10/01/2013 - 09/30/2014

Criteria – Per the A-102 Common Rule, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and conditions of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Further, a physical inventory of equipment should be taken at least once every 2 years and reconciled to the equipment records along with the usage of an appropriate control system to safeguard and maintain equipment.

Condition – The Government's Department of Property and Procurement (DPP) maintains the equipment register for DPNR. DPP was unable to provide complete property and physical inventory records which met the requirements of the A-102 Common Rule.

We also selected three current year equipment additions, from the general ledger, and noted that 2 out of the 3 items selected were not included on the equipment register as provided and maintained by DPP.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DPNR's compliance with specified requirements.

Effect – There is a risk that inadequate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations resulting in a return of Federal awards received.

Cause – The Government does not appear to have a process in place to adequately monitor equipment acquired with Federal funds.

Recommendation – We recommend that DPNR and DPP improve internal controls to ensure adherence to Federal regulations related to equipment and its related maintenance. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing such assets.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DPNR intends to work in conjunction with the Department of Property and Procurement (DPP) to reconcile equipment purchases made to include all A-102 Common Rule requirements regarding property records maintained by DPP as it relate to: description of the property, serial number or other identification number, the source of property, who holds the title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and conditions of the property, and any ultimate disposition data including the date of disposal, and sale price of the property. In addition, in-house property listings will be updated to include all aspects identified above.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Director - DBAS and Grants Manager – DPNR

Finding 2014-042: Matching, Level of Effort, and Earmarking

Program:
U.S. Department of Commerce

Coastal Zone Management Administration Awards
CFDA #: 11.419
Award #: Various
Award Year: 10/01/2013 - 09/30/2014

Government Department/Agency:
Department of Planning and Natural Resources (DPNR)

Criteria – In accordance with the Coastal Zone Management Program Regulations (16 USC §1455) and CFR Title 15, Part 923.110, a recipient is required to contribute matching funds at a ratio of 1:1 of the cost of the program through cash, in-kind contributions, and/or other non-cash support.

Condition – DPNR was unable to readily exhibit and provide its computation of the matching calculation or provide evidence that it was monitoring compliance with said requirement. Upon a further review of general ledger organizational codes, it was noted that the matching contribution used by DPNR had not met the 1:1 requirement.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of DPNR's compliance with specified requirements.

Effect – DPNR is in violation of the stated compliance requirement.

Cause – DPNR does not appear to have adequate policies and procedures in place to ensure complete compliance with the matching requirement.

Recommendation - We recommend that DPNR deploy resources that are given the responsibility to ensure periodic monitoring and compliance of the match requirement throughout the fiscal year.

View of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DPNR intends to put in place a tracking mechanism to monitor the matching requirement, and to ensure that the funds spent are accurately documented to support the Federal matching requirement.

Implementation Date: 1st Quarter of Fiscal Year 2016

Person(s) Responsible: Director – CZM and Grants Manager – DPNR

Finding 2014-043: Procurement, Suspension, and Debarment

Program:
U.S. Department of Commerce

Coastal Zone Management Administration Awards
CFDA #: 11.419
Award #: Various
Award Year: 10/01/2013 - 09/30/2014

Government Department/Agency:
Department of Planning and Natural Resources (DPNR)

Criteria – OMB Circulars A-133 and A-102 common rule, require that recipients of Federal awards have adequate procedures and controls in place to ensure that the procedures are properly documented in the entity's files, provide full and open competition supported by a cost or price analysis, provide a vendor debarment or suspension certification, provide for retention of files, and that supporting documentation corroborate compliance with these requirements.

Condition – The Government's Department of Property and Procurement (DPP) is primarily responsible for procurement transactions, including activities pertaining to Federal contracts. In our review of a procurement transaction meeting the test threshold, DPP was unable to provide evidence that the suspension and debarment analysis had been performed before contract activity began.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of DPNR's compliance with specified requirements. We reviewed 1 procurement file totaling $25,000.

Effect – DPNR could inadvertently contract with or make sub-awards to parties that are suspended or debarred from doing business with the Federal government as well as award contracts to vendors whose contract prices are unreasonable. In addition, contracts may be executed to unqualified vendors.

Cause – The Government does not appear to have a process in place to adequately monitor and maintain completed contract files comprising of all supporting documents.

Recommendation - We recommend that DPNR and DPP improve internal controls to ensure adherence to Federal regulations relating to the procurement of goods and services and review current records retention policies. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing procurement tasks.

View of Responsible Officials and Planned Corrective Actions –The Government concurs with the auditor's findings and recommendations.

Action Plan: DPNR intends to ensure that procurement and suspension and debarment checks are completed in the System of Awards Management (SAM), prior to selecting vendors to provide services for which Federal resources are used to make payment.

Implementation Date: 1st Quarter of Fiscal Year 2016

Person(s) Responsible: Director - DBAS and Grants Manager – DPNR

Finding 2014-044: Allowable Costs/Cost Principles - Payroll Activities

Program:
U.S. Department of Commerce

Government Department/Agency:
Department of Planning and Natural Resources (DPNR)

Coral Reef Conservation Program
CFDA #: 11.482
Award #: NA11NOS4820004/NA13NOS4820011
Award Year: 10/01/2013 – 09/30/2014

Criteria - OMB Circular A-87 requires that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Alternatively, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation.

Condition - We sampled and selected 4 employees and noted that the related time and effort certifications were not available.

Questioned Costs – Not determinable.

Context - This is a condition identified per review of DPNR's compliance with specified requirements. The total amount of payroll expenditures charged to the program in fiscal year 2014 was $113,397.

Effect - DPNR is not in compliance with the provisions of OMB Circular A-87. Failure to properly review and support payroll expenditures can result in noncompliance with laws and regulations along with loss of funding.

Cause – Management does not appear to have adequate policies and procedures in place to ensure compliance with time and effort certification principles.

Recommendation – Where employees work solely on a single Federal program, charges for their salaries and wages should be supported by periodic certifications in accordance with OMB Circular A-87. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages should be supported by personnel activity reports (time and attendance) or equivalent documents in accordance with OMB Circular A-87. Such information should also be monitored and approved by a responsible official of DPNR in a timely manner.

View of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DPNR intends to prepare, monitor, and approve time and effort certification for employees paid solely from the Federal award to support payroll expenses charged to the Federal program.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Director - DBAS and Director – CZM - DPNR

Finding 2014-045: Matching, Level of Effort, and Earmarking

Program:
U.S. Department of Commerce

Government Department/Agency:
Department of Planning and Natural Resources (DPNR)

Coral Reef Conservation Program
CFDA #: 11.482
Award #: NA11NOS4820004/NA13NOS4820011
Award Year: 10/01/2013 – 09/30/2014

Criteria – In accordance with and depending on the individual grant agreements, DPNR is required to contribute matching funds up to at least 30% of the cost of the program through cash, in-kind contributions, and/or other non-cash support.

Condition – DPNR was unable to readily exhibit and provide its computation of the matching calculation or provide evidence that it was monitoring compliance with said requirement. Upon a further review of general ledger object codes, it was noted that the matching contribution used by DPNR had not met the stipulated requirement(s).

Questioned Costs - Not determinable.

Context - This is a condition identified per review of DPNR's compliance with specified requirements.

Effect – DPNR is in violation of the stated compliance requirement.

Cause – DPNR does not appear to have adequate policies and procedures in place to ensure complete compliance with the matching requirement.

Recommendation - We recommend that DPNR deploy resources that are given the responsibility to ensure periodic monitoring and compliance of the match requirement throughout the fiscal year.

View of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DPNR intends to put in place a tracking mechanism to monitor the matching requirement, and to ensure that the funds spent are accurately documented to support the Federal matching requirement.

Implementation Date: 1st Quarter of Fiscal Year 2016

Person(s) Responsible: Director – CZM and Grants Manager – DPNR

Finding 2014-046: Allowable Costs/Cost Principles - Payroll Activities

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Justice (DOJ)

Child Support Enforcement
CFDA #: 93.563
Award #: 1404VI4005
Award Year: 10/01/2013 - 09/30/2014

Criteria - OMB Circular A-87 requires that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Alternatively, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation.

Condition - We noted the following:

- Time and effort certifications for 9 out of 20 sampled employees had not been signed and approved in a timely manner by a supervisory official.
- The time and effort certification for 1 out of 20 sampled employees was not available.

Questioned Costs – Not determinable.

Context - This is a condition identified per review of DOJ's compliance with specified requirements. The total amount of payroll expenditures charged to the program in fiscal year 2014 was $2,214,821.

Effect - DOJ is not in compliance with the provisions of OMB Circular A-87. Failure to properly review and support payroll expenditures can result in noncompliance with laws and regulations along with loss of funding.

Cause – Management does not appear to have adequate policies and procedures in place to ensure compliance with time and effort certification principles.

Recommendation – Where employees work solely on a single Federal program, charges for their salaries and wages should be supported by periodic certifications in accordance with OMB Circular A-87. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages should be supported by personnel activity reports (time and attendance) or equivalent documents in accordance with OMB Circular A-87. Such information should also be monitored and approved by a responsible official of DOJ in a timely manner.

View of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: The program will prepare quarterly time certifications and make sure the certifications are signed timely by the employee and supervisor.

Implementation Date: November 2015 and ongoing

Person(s) Responsible: PCSD Managers, Director, and Financial Control Officer - PCSD – DOJ

Finding 2014-047: Cash Management

Program:
U.S. Department of Health and Human Services

Child Support Enforcement
CFDA #: 93.563
Award #: 1404VI4005
Award Year: 10/01/2013 - 09/30/2014

Government Department/Agency:
Department of Justice (DOJ)

Criteria – The Cash Management Improvement Act of 1990 (CMIA) agreement between the Government of the United States Virgin Islands and the U.S. Department of Treasury requires that established funding techniques and clearance patterns be complied with when requesting Federal funds. The CMIA agreement stipulates that funding for payments to vendors and all other costs require the use of an average clearance funding technique and a clearance pattern of 4 days for this program. The CMIA agreement also stipulates that funding for payments for salaries requires the use of an average clearance funding technique and a clearance pattern of 0 days for this program. These techniques require DOJ to minimize the time that elapses between the payment of the disbursement and the request for reimbursement.

Condition – We reviewed 6 out of 55 drawdowns made during fiscal year 2014, totaling $1,724,664, and noted that 3 out of the 6 sampled drawdowns were not in accordance with the provisions of the CMIA agreement.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOJ's compliance with the provisions of the CMIA agreement. Total fiscal year 2014 drawdown requests were $4,622,967.

Effect – DOJ is not in compliance with the provisions of the CMIA agreement. The opportunity to use the money for other immediate cash needs is unnecessarily delayed when funds are not requested timely.

Cause – DOJ did not appear to exercise due diligence in requesting Federal funds consistent with the CMIA agreement and its actual cash needs.

Recommendation - We recommend that DOJ comply with the provisions of the CMIA agreement and request Federal funds consistent with the CMIA agreement funding techniques and clearance patterns for this program.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DOJ will work with the Department of Finance (DOF) in generating readily available Paid Invoice Reports for all Federal expenditures through the Enterprise Resource Planning (ERP) system, and make sure DOF recommended drawdown dates are in compliance with the CMIA agreement.

Implementation Date: October 2015 and ongoing

Person(s) Responsible: Treasury Division – DOF and Director and Financial Control Officer - PCSD - DOJ

Finding 2014-048: Equipment and Real Property Management

Program:
U.S. Department of Health and Human Services

Government Department/Agency:
Department of Justice (DOJ)

Child Support Enforcement
CFDA #: 93.563
Award #: 1404VI4005
Award Year: 10/01/2013 - 09/30/2014

Criteria – Per the A-102 Common Rule, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and conditions of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Further, a physical inventory of equipment should be taken at least once every 2 years and reconciled to the equipment records along with the usage of an appropriate control system to safeguard and maintain equipment.

Condition – The Government's Department of Property and Procurement (DPP) maintains the equipment register for DOJ. DPP was unable to provide complete property and physical inventory records which met the requirements of the A-102 Common Rule.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOJ's compliance with specified requirements.

Effect – There is a risk that inadequate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations resulting in a return of Federal awards received.

Cause – The Government does not appear to have a process in place to adequately monitor equipment acquired with Federal funds.

Recommendation – We recommend that DOJ and DPP improve internal controls to ensure adherence to Federal regulations related to equipment and its related maintenance. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing such assets.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: The program will coordinate with DPP to validate the inventory at PCSD offices and make sure they are up to date. PCSD will conduct inventory of their assets on a bi-annual basis and share that information with DPP. All incoming assets purchased with Federal funds will be logged and tagged based on description and cost of property, serial number, acquisition date, and disposals at PCSD in order to maintain accurate records of the assets.

Implementation Date: November 2015 and ongoing

Person(s) Responsible: Director and MIS Manager – PCSD - DOJ

Finding 2014-049: Reporting

Program:
U.S. Department of Defense

National Guard Military Operations & Maintenance (O&M) Projects
CFDA #: 12.401
Award #: W9127P-09-2-1000
Award Year: 10/01/2013 - 09/30/2014

Government Department/Agency:
Office of the Adjutant General (OTAG)

Criteria – Effective control and accountability must be maintained for all grant awards to ensure funds are used solely for authorized purposes. A fundamental concept in effective control and accountability is the concept of segregation of duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Condition – The SF-270, *Request for Advance or Reimbursement* reports that are prepared and submitted to the Federal government are not reviewed and approved by individuals other than the individual who prepared the original report(s).

Questioned Costs – Not determinable.

Context – This is a condition identified per review of OTAG's compliance with specified requirements.

Effect – Failure of adequate segregation of duties could lead to internal controls that are not designed reasonably to ensure compliance with Federal laws, regulations, and program requirements.

Cause – Due to the limited number of people, certain duties may be combined.

Recommendation – To the extent possible, duties should be segregated to serve as a check and balance in order to maintain the best control system possible and we suggest certain steps should be taken to separate incompatible duties.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: The Director of the Program is the only individual working in St. Thomas and the remaining staff works in St. Croix. OTAG employees are all under the umbrella of one office. All control and accountability for OTAG's Federal Programs are managed by the various Program Managers of the Virgin Islands National Guard. Each Program Manager has an office where invoices for goods and services procured are entered into the Enterprise Resource Planning (ERP) System of the Government.

Upon payment of the goods and services, the check details are obtained, and the SF-270s are prepared. With the absence of a Financial Analyst, the SF-270s will be prepared by the Director of Administration and will be forwarded to the Program Managers for review, approval, and certification. Upon approval by the Program Managers, the SF-270s with the supporting documents will be forwarded to the United States Property and Fiscal Office for further review.

Implementation Date: November 2015 and ongoing

Person(s) Responsible: Budget Office - OTAG

Finding 2014-050: Cash Management

Program:
U.S. Department of Transportation

Highway Planning and Construction
CFDA #: 20.205
Award #/Name: Territorial Highway Program Implementation and Stewardship Agreement
Award Year: 10/01/2013 – 09/30/2014

Government Department/Agency:
Department of Public Works (DPW)

Criteria – The Cash Management Improvement Act of 1990 (CMIA) agreement between the Government of the United States Virgin Islands and the U.S. Department of Treasury requires that established funding techniques and clearance patterns be complied with when requesting Federal funds.

The CMIA agreement stipulates that funding for payments to vendors and all other costs require the use of an average clearance funding technique and a clearance pattern of 4 days for this program. The CMIA agreement also stipulates that funding for payments for salaries requires the use of an average clearance funding technique and a clearance pattern of 0 days for this program. These techniques require DPW to minimize the time that elapses between the payment of the disbursement and the request for reimbursement.

Condition – We reviewed 60 out of 505 drawdowns made during fiscal year 2014, totaling $2,336,532, and noted that 53 out of the 60 sampled drawdowns were not in accordance with the provisions of the CMIA agreement.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DPW's compliance with the provisions of the CMIA agreement and general compliance principles. Total fiscal year 2014 drawdown requests were $17,880,481.

Effect – DPW is not in compliance with the provisions of the CMIA agreement. The opportunity to use the money for other immediate cash needs is unnecessarily delayed when funds are not requested timely.

Cause – DPW did not appear to exercise due diligence in requesting Federal funds consistent with the CMIA agreement and its actual cash needs.

Recommendation - We recommend that DPW comply with the provisions of the CMIA agreement and request Federal funds consistent with the CMIA agreement funding techniques and clearance patterns for this program.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: The U.S. Virgin Islands Federal Highway Administration (FHWA) Program continues to communicate with the Office of FHWA in Puerto Rico regarding the implementation of the electronic Rapid Assessment Payment System (RASPS).

Implementation Date: Fiscal Year 2015 and ongoing (Communication re: RASPS & Treasury – State Agreement)

Person(s) Responsible: Assistant Director of Administration – DPW

Finding 2014-051: Cash Management

Program:
U.S. Department of the Interior

Economic, Social, and Political Development
of the Territories
CFDA #: 15.875
Award #: D12AP00354/D12AP00100
Award Year: 09/19/2012 – 08/30/2017

Government Department/Agency:
Various

Criteria – Under 31 CFR section 205.12(b)(5), reimbursable funding means that a Federal Program Agency transfers Federal funds to a State or Territory after that State or Territory has already paid out the funds for Federal assistance program purposes.

Condition – We reviewed 9 out of 76 drawdowns made during fiscal year 2014, totaling $1,653,192, and noted that 4 out of the 9 sampled drawdowns had been requested prior to the actual expenditures being incurred.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of the Government's compliance with specified requirements. Total fiscal year 2014 drawdown requests were $5,361,867.

Effect – The Government is in violation of the stated compliance requirement.

Cause – The Government did not appear to exercise due diligence in requesting Federal funds consistent with 31 CFR section 205.12(b)(5) and its actual cash needs.

Recommendation - We recommend that the Government comply with the stated provisions and request Federal funds subsequent to incurring the respective expenditures.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: The Government will exercise due diligence in requesting Federal funds as specified under 31 CFR Section 205 with respect to reimbursable funding for expenditures incurred.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Associate Director of Auditing and Reporting - OMB

Finding 2014-052: Davis-Bacon Act

Program:
U.S. Department of the Interior

Economic, Social, and Political Development
of the Territories
CFDA #: 15.875
Award #: D12AP00354/D12AP00100
Award Year: 09/19/2012 – 08/30/2017

Government Department/Agency:
Various

Criteria – All laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the U.S. Department of Labor (DOL). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Further, non-Federal entities shall include in their construction contracts, subject to the Davis-Bacon Act, a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and DOL regulations.

Condition – We reviewed 2 construction contracts with Federal awards expended during the fiscal year. While the Davis-Bacon Act and DOL requirements were included in the solicitation to all potential bidders, we noted that contractor or subcontractor compliance requirements were not included in the actual signed contracts. In addition, the Government did not have a process in place to obtain copies of the respective payroll and statement of compliance (certified payroll) for contract work performed in order to conduct its requisite review on a timely basis.

Questioned Costs – Not determinable.

Context - This is a condition identified per review of the Government's compliance with specified requirements.

Effect – The Government is in violation of the stated compliance requirements. There is a potential that contractors or subcontractors could have paid their employees less than the prevailing wage rates established by DOL.

Cause – The Government did not strictly implement the terms of the construction contracts and Davis-Bacon Act requirements when monitoring its contractors or subcontractors.

Recommendation – We recommend that the Government re-evaluate its policies and procedures and implement the necessary changes to ensure that the provisions of the Davis-Bacon Act are properly followed. The Government should establish a monitoring process to ensure that responsible project management personnel obtain and review, on a timely basis, the required certified payroll reports for each week in which a contractor or subcontractor's work is performed. In addition, the Government should review all construction contracts in order to ensure the required clauses are included and provisions are communicated timely.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: The contract for the repairs to the Christiansted Board Walk Project was reviewed and the provision for the Davis-Bacon Act was not in it. It appears that the Act was inadvertently omitted from the package that would ensure that Federal funds were used for the said repairs. It is also true that no certified copy of the contractor's payroll was requested to verify if the Davis-Bacon Act was followed/adhered to. Neither the Davis-Bacon Act nor a certified copy of the contractor's payroll was included in the package for DPW and VIFS. The Government will ensure that all departments that receive Federal funds comply with requirements and procedures as delineated by the Davis-Bacon Act and Certified Payroll Statements of Compliance.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Associate Director of Auditing and Reporting - OMB

Finding 2014-053: Equipment and Real Property Management

Program:
U.S. Department of the Interior

Economic, Social, and Political Development of the Territories
CFDA #: 15.875
Award #: D12AP00354/D12AP00100
Award Year: 09/19/2012 – 08/30/2017

Government Department/Agency:
Various

Criteria – Per the A-102 Common Rule, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and conditions of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Further, a physical inventory of equipment should be taken at least once every 2 years and reconciled to the equipment records along with the usage of an appropriate control system to safeguard and maintain equipment.

Condition – The Government's Department of Property and Procurement (DPP) maintains the equipment register. DPP was unable to provide complete property records which met the requirements of the A-102 Common Rule. We selected 7 current year equipment additions for further analysis. We noted that 3 out of the 7 sampled purchases had not been properly tagged.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of the Government's compliance with specified requirements.

Effect – There is a risk that inadequate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations resulting in a return of Federal awards received.

Cause – The Government does not appear to have a process in place to adequately monitor equipment acquired with Federal funds.

Recommendation – We recommend that DPP improve internal controls to ensure adherence to Federal regulations related to equipment and its related maintenance. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing such assets.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: The Government will ensure that all equipment purchases are properly tagged and tracked and will work to comply with policies and procedures that deal with equipment disposals. The Department of Property and Procurement has been contacted to make arrangements to have the items tagged as required.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Associate Director of Auditing and Reporting – OMB

Finding 2014-054: Activities Allowed or Unallowed

Program:
U.S. Department of Labor

Government Department/Agency:
Department of Labor (VIDOL)

Unemployment Insurance
CFDA #: 17.225
Award #: UI-25244-14-55-A-78
Award Year: 10/01/2013 – 09/30/2014

Criteria – In accordance with OMB Circular A-102, "Grants and Cooperative Agreements with States and Local Governments," a State or Territory must adopt its own written fiscal and administrative requirements for expending and accounting for all funds, which are consistent with the provisions of OMB Circular A-87, and extend such policies to all subrecipients. These fiscal and administrative requirements must be sufficiently specific to ensure that: funds are used in compliance with all applicable Federal statutory and regulatory provisions, costs are reasonable and necessary for operating these programs, and funds are not used for general expenses required to carry out other responsibilities of a State or Territory or its subrecipients.

Condition – VIDOL was unable to provide reconciled accounting information relating to several Unemployment Insurance Trust Fund accounts. As such, we were unable to conclude on the fiscal and administrative requirements with respect to expending and accounting for all funds related to the Unemployment Insurance program.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of VIDOL's compliance with specified requirements.

Effect – Accounting tasks, such as periodic reconciliations, play a key role in proving the accuracy of accounting data and information included in various interim financial statements and/or Federal reports. A lack of timely preparation of complete and accurate reconciliations results in the absence of adequate control over both cash receipts and disbursements.

Cause – VIDOL did not appear to exercise its policies and procedures in an effort to adequately administer the expending and accounting for all funds.

Recommendation - We recommend that VIDOL improve internal controls to ensure adherence to Federal regulations related to the fiscal and administrative requirements for expending and accounting for all funds. In order to prevent significant errors in the financial records as well as prevent possible irregularities, including fraud, to exist and continue without notice, we recommend that all accounts, accruals, and reconciliations be reviewed on a periodic basis.

Views of Responsible Officials and Planned Corrective Actions **–** The Government concurs with the auditor's findings and recommendations.

Action Plan: The Virgin Islands Department of Labor (VIDOL) recognizes the need to reconcile our unemployment insurance (UI) accounts on a timely basis. VIDOL will develop the necessary internal controls which include step-by-step policies and procedures for the timely reconciliation of cash receipts and disbursements. VIDOL has identified the necessary staff to ensure that these functions and tasks are carried out timely and continuously. All identified staff member(s) will be educated and trained on said policies and procedures, as well as any other computer related programs for full execution.

It is the intent of VIDOL to develop a software program to assist with the internal tracking of cash receipts and disbursements in order to prevent significant errors in the financial records and statements.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: The management team of the Department of Labor; specifically, the UI, Director, UI Assistant Director, IT Director and Business & Administrative Director, UI Accountant, and Assistant Commissioner – VIDOL

Finding 2014-055: Activities Allowed or Unallowed

Program:	***Government Department/Agency:***
U.S. Department of Agriculture	Department of Education (DOE)

Child Nutrition Cluster
CFDA #: 10.555/10.556/10.559
Award #: 1VI300308
Award Year: 10/01/2013 – 9/30/2014

Criteria - Attachment A, OMB Circular No. 87 Section C (1)(j), states that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be allocable for Federal awards under provisions of the Circular.

Condition – We noted the following:

- Program expenditures in fiscal year 2014, included certain costs, amounting to approximately $83,000, which fell under the scope of State Administrative Expenses for Child Nutrition (CFDA 10.560).
- During our procedures over non-payroll activities, we noted that 6 items, out of a review of 60 transactions, had been erroneously charged to the program. The total amount of sampled costs which had been erroneously charged to the program was $200,713.

Questioned Costs – $283,713

Context – This is a condition identified per review of DOE's compliance with specified requirements. Total non-payroll expenditures charged to the program during fiscal year 2014 were $3,491,598.

Effect – DOE is not in compliance with stated requirements and program directives governing the grant and controls over the proper monitoring of program expenditures do not appear to be functioning as intended.

Cause – Management does not appear to have adequate policies and procedures in place to ensure compliance with applicable allowable costs principles, including appropriate identification of expenditures between different funded awards.

Recommendation – We recommend that DOE strengthen its processes with respect to setting up and charging expenditures between various grant awards and ensuring that the accounting system reflects the appropriate funded value by grant (CFDA #). We also recommend that DOE enhance its review process to properly determine the activities of each grant and reflect them accordingly.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: The newly hired Financial Control Officer for the Special Nutrition Programs will ensure that all expenditures are charged to the correct grants and grant periods moving forward. All records will be kept and filed safely to ensure that they are available upon request from reviewers. In addition, all records relating to expenditures will be effectively reviewed on a regular basis for completeness, accuracy, and allowability. DOE will enforce through policies that all records and supporting documentation are complete and appropriately maintained and stored.

Implementation Date: January 2016 and ongoing

Person(s) Responsible: Director- Special Nutrition Programs - DOE

Finding 2014-056: This finding number was not used.

Finding 2014-057: Allowable Costs/Cost Principles - Non-payroll Activities

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Education (DOE)

Child Nutrition Cluster
CFDA #: 10.555/10.556/10.559
Award #: 1VI300308
Award Year: 10/01/2013 – 9/30/2014

Criteria - Attachment A, OMB Circular No. 87 Section C (1)(j), states that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be allocable for Federal awards under provisions of the Circular.

Condition – In our review of 60 transactions, we noted 4 items where DOE was unable to provide adequate supporting documentation.

Questioned Costs – $87,994

Context – This is a condition identified per review of DOE's compliance with specified requirements. Total non-payroll expenditures charged to the program during fiscal year 2014 were $3,491,598. Sampled transactions without adequate supporting documentation amounted to $87,994.

Effect – Because of the absence of appropriate documentation, we were unable to completely verify the allowability or validity of expenses claimed as Federal expenditures.

Cause – Management does not appear to have adequate policies and procedures in place to ensure compliance with applicable allowable cost principles and to ensure a consistent and systematic review of documentation and file maintenance.

Recommendation – We recommend that DOE perform regular reviews of the data in its files to ensure accuracy and completeness. DOE should also review its records retention policies to ensure that complete documentation is maintained, safeguarded, and available for review.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: The newly hired Financial Control Officer for the Special Nutrition Programs will ensure that all records are kept and filed safely to ensure that they are available upon request from reviewers. In addition, all records relating to expenditures will be effectively reviewed on a regular basis for completeness, accuracy, and allowability. DOE will enforce through policies that all records and supporting documentation are complete and appropriately maintained and stored.

Implementation Date: January 2016 and ongoing

Person(s) Responsible: Director- Special Nutrition Programs - DOE

Finding 2014-058: Allowable Costs/Cost Principles - Indirect Cost Activities

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Education (DOE)

Child Nutrition Cluster
CFDA #: 10.555/10.556/10.559
Award #: 1VI300308
Award Year: 10/01/2013 – 9/30/2014

Criteria – OMB Circular A-87, Attachment A, requires that where an accumulation of indirect costs will ultimately result in a charge to a Federal award, a cost allocation plan will be required.

Condition – DOE did not reconcile and record indirect costs accurately in the accounting system, and did not accurately allocate the share of indirect costs to the program. It appears that indirect costs of approximately $123,000 were excluded and this resulted in an understatement of indirect costs claimed for the period.

Questioned Costs – Not applicable.

Context – This condition was identified per review of DOE's compliance with specified requirements. DOE has an approved indirect cost rate agreement with the U.S. Department of Education of 4.65%.

Effect – Reimbursable amounts were understated.

Cause – Indirect costs were not properly calculated and captured in the accounting system.

Recommendation – We recommend that DOE should review and reconcile cost allocations to ensure accuracy. DOE may also consider revising its future cost allocations for any understatements.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: The fiscal year 2013 and fiscal year 2014 Indirect Cost Rate Agreements for the Child Nutrition Cluster were completed and submitted to the Department of Education during fiscal year 2014. Therefore, DOE utilized the prevailing rates for fiscal year 2011 and fiscal year 2012 during fiscal year 2014, as the rates were negotiated and received. DOE will ensure that the correct indirect cost rate is utilized once it is negotiated and received.

Implementation Date: January 2016 and ongoing

Person(s) Responsible: Director- Special Nutrition Programs - DOE

Finding 2014-059: Cash Management

Program:
U.S. Department of Agriculture

Child Nutrition Cluster
CFDA #: 10.555/10.556/10.559
Award #: 1VI300308
Award Year: 10/01/2013 – 9/30/2014

Government Department/Agency:
Department of Education (DOE)

Criteria – The Cash Management Improvement Act of 1990 (CMIA) agreement between the Government of the United States Virgin Islands and the U.S. Department of Treasury requires that established funding techniques and clearance patterns be complied with when requesting Federal funds.

The CMIA agreement stipulates that funding for payments to vendors and all other costs require the use of an average clearance funding technique and a clearance pattern of 4 days for this program. The CMIA agreement also stipulates that funding for payments for salaries requires the use of an average clearance funding technique and a clearance pattern of 0 days for this program. These techniques require DOE to minimize the time that elapses between the payment of the disbursement and the request for reimbursement.

Condition – We reviewed 27 out of 208 drawdowns made during fiscal year 2014, totaling $1,482,982, and noted that 1 out of the 27 sampled drawdowns was not in accordance with the provisions of the CMIA agreement.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOE's compliance with the provisions of the CMIA agreement and general compliance principles. Total fiscal year 2014 drawdown requests were $6,360,578.

Effect – DOE is not in compliance with the provisions of the CMIA agreement. The opportunity to use the money for other immediate cash needs is unnecessarily delayed when funds are not requested timely.

Cause – DOE did not appear to exercise due diligence in requesting Federal funds consistent with the CMIA agreement and its actual cash needs.

Recommendation - We recommend that DOE comply with the provisions of the CMIA agreement and request Federal funds consistent with the CMIA agreement funding techniques and clearance patterns for this program.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DOE will ensure that all drawdowns are carried out within the timeframe of the CMIA Agreement.

Implementation Date: Fiscal Year 2016

Person(s) Responsible: Director- Special Nutrition Programs - DOE

Finding 2014-060: Equipment and Real Property Management

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Education (DOE)

Child Nutrition Cluster
CFDA #: 10.555/10.556/10.559
Award #: 1VI300308
Award Year: 10/01/2013 – 9/30/2014

Criteria – Per the A-102 Common Rule, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and conditions of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Further, a physical inventory of equipment should be taken at least once every 2 years and reconciled to the equipment records along with the usage of an appropriate control system to safeguard and maintain equipment.

Condition – The Government's Department of Property and Procurement (DPP) maintains the equipment register for DOE. DPP was unable to provide complete property and physical inventory records which met the requirements of the A-102 Common Rule.

Questioned Costs – Not determinable.

Context – This is a condition identified per review of DOE's compliance with specified requirements.

Effect – There is a risk that inadequate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations resulting in a return of Federal awards received.

Cause – The Government does not appear to have a process in place to adequately monitor equipment acquired with Federal funds.

Recommendation – We recommend that DOE and DPP improve internal controls to ensure adherence to Federal regulations related to equipment and its related maintenance. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing such assets.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DOE will maintain complete and accurate records pertaining to the location and distribution of all fixed assets in coordination with DPP. In addition, staff will regularly monitor the inventory of fixed assets.

Implementation Date: March 2016

Person(s) Responsible: Director- Special Nutrition Programs – DOE

Finding 2014-061: Procurement, Suspension, and Debarment

Program:
U.S. Department of Agriculture

Government Department/Agency:
Department of Education (DOE)

Child Nutrition Cluster
CFDA #: 10.555/10.556/10.559
Award #: 1VI300308
Award Year: 10/01/2013 – 9/30/2014

Criteria – OMB Circulars A-133 and A-102 common rule, require that recipients of Federal awards have adequate procedures and controls in place to ensure that the procedures are properly documented in the entity's files, provide full and open competition supported by a cost or price analysis, provide a vendor debarment or suspension certification, provide for retention of files, and that supporting documentation corroborate compliance with these requirements.

Condition – The Government's Department of Property and Procurement (DPP) is primarily responsible for procurement transactions, including activities pertaining to Federal contracts. In our review of 9 procurement transactions meeting the test threshold, DPP was unable to provide evidence that the suspension and debarment analysis had been performed before contract activity began.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of DOE's compliance with specified requirements. We reviewed 9 procurement files totaling $826,758.

Effect – DOE could inadvertently contract with or make sub-awards to parties that are suspended or debarred from doing business with the Federal government as well as award contracts to vendors whose contract prices are unreasonable. In addition, contracts may be executed to unqualified vendors.

Cause – The Government does not appear to have a process in place to adequately monitor and maintain completed contract files comprising of all supporting documents.

Recommendation - We recommend that DOE and DPP improve internal controls to ensure adherence to Federal regulations relating to the procurement of goods and services and review current records retention policies. There should be timely coordination and communication amongst all Government departments and/or agencies that are responsible for handling and managing procurement tasks.

Views of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DOE and the Department of Property and Procurement will work collaboratively to ascertain whether vendors are debarred from performing services prior to issuing a final contract for the Government of the Virgin Islands. DOE will also ensure that all supporting documentation is available relative to suspension and debarment and monitor listings periodically.

Implementation Date: January 2016

Person(s) Responsible: Director- Special Nutrition Programs - DOE

Finding 2014-062: This finding number was not used.

Finding 2014-063: Special Tests and Provisions - Accountability for USDA-Donated Foods

Program:	***Government Department/Agency:***
U.S. Department of Agriculture	Department of Education (DOE)

Child Nutrition Cluster
CFDA #: 10.555/10.556/10.559
Award #: 1VI300308
Award Year: 10/01/2013 – 9/30/2014

Criteria – The OMB Compliance Supplement states the following:

a) Maintenance of Records - Distributing and subdistributing agencies (as defined at 7 CFR section 250.3) must maintain accurate and complete records with respect to the receipt, distribution, and inventory of USDA-donated foods including end products processed from donated foods. Failure to maintain records required by 7 CFR section 250.16 shall be considered prima facie evidence of improper distribution or loss of donated foods, and the agency, processor, or entity may be required to pay USDA the value of the food or replace it in kind (7 CFR sections 250.16(a)(6) and 250.15(c).

b) Physical Inventory - Distributing and subdistributing agencies shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency that contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR section 250.14(e)).

Condition – We noted that DOE did not have the necessary policies and procedures in place to allow it to maintain accurate and complete records with respect to the receipt, distribution, and inventory of USDA-donated foods. We further noted that DOE performed an annual inventory of commodity goods and compared it with the School Food Authority count; however, no corrective action had been taken to resolve the noted discrepancies.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of DOE's compliance with specified requirements.

Effect – Noncompliance with program requirements could result in disallowances of costs and DOE may be required to pay USDA the value of the food or replace it in kind.

Cause – DOE does not appear to have adequate policies and procedures to ensure a consistent and systematic review of documentation and records maintenance.

Recommendation - We recommend that DOE implement policies and procedures to ensure adherence to Federal regulations. DOE should also review its records retention policies to ensure that complete documentation is maintained, safeguarded, and available for review.

View of Responsible Officials and Planned Corrective Actions – The Government concurs with the auditor's findings and recommendations.

Action Plan: DOE has identified additional measures in addition to the existing policies and procedures regarding inventory control measures for Federal and insular commodities.

- As of June 2006, School Food Authorities have been required to submit the results of the physical inventory no later than the tenth day of the month following the month the inventory was taken.
- In January 2015, technical assistance and training was provided to School Food Authorities and warehouse staff in both districts.
- In February of 2015, DOE implemented corrective action in the form of training and additional monitoring of the perpetual inventory. Monitoring includes physical inventory spot checks for designated storage areas which require both the physical and perpetual inventory to be reconciled.
- Beginning November 30, 2015, the state agency staff will assist the St. Thomas/St. John district warehouse with updating the perpetual inventory format and file structure.

Implementation Date: Fiscal Year 2015 and ongoing

Person(s) Responsible: Director - Special Nutrition Programs - DOE

Summary Schedule of Prior Audit Findings

Finding Number	Federal Government Agency	Program Name	Type of Finding	Program CFDA #	Current Status
2013-009	U.S. Department of Transportation / U.S. Department of Health and Human Services	Highway Planning and Construction / Medical Assistance Program	Cash Management	20.205 93.778	Repeated. Finding No. 2014-050 / 2014-031
2013-010	U.S. Department of Labor	Unemployment Insurance	Cash Management	17.225	Corrected.
2013-011	U.S. Department of Agriculture	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Special Tests and Provisions - Authorization of Above-50-Percent Vendors	10.557	Corrected.
2013-012	U.S. Department of Justice	Violence Against Women Formula Grants	Reporting	16.558 - ARRA	Corrected.
2013-013	U.S. Department of Justice	Violence Against Women Formula Grants	Subrecipient Monitoring	16.558 - ARRA	Corrected.
2013-014	U.S. Department of Justice	JAG Program Cluster	Cash Management	16.738 16.803 - ARRA	Corrected.
2013-015	U.S. Department of Justice	JAG Program Cluster	Reporting	16.738 16.803 - ARRA	Corrected.
2013-016	U.S. Department of Justice	JAG Program Cluster	Subrecipient Monitoring	16.738 16.803 - ARRA	Corrected.
2013-017	U.S. Department of Health and Human Services	Temporary Assistance for Needy Families	Special Tests and Provisions - Income Eligibility and Verification System (IEVS)	93.558	Repeated. Finding No. 2014-025
2013-018	U.S. Department of Health and Human Services	Medical Assistance Program	Special Tests and Provisions - Utilization Control & Program Integrity	93.778	Repeated. Finding No. 2014-033

Summary Schedule of Prior Audit Findings
Year Ended September 30, 2014

Finding Number	Federal Government Agency	Program Name	Type of Finding	Program CFDA #	Current Status
2013-019	U.S. Department of Health and Human Services	Medical Assistance Program	Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits	93.778	Repeated. Finding No. 2014-035
2013-020	U.S. Department of Health and Human Services	Medical Assistance Program	Special Tests and Provisions - ADP Risk Analysis and System Security Review	93.778	Repeated. Finding No. 2014-036
2013-021	U.S. Department of Health and Human Services	Medical Assistance Program	Allowable Costs/Cost Principles - Recoveries, Refunds, and Rebates	93.778	Repeated. Finding No. 2014-030
2013-022	U.S. Department of Health and Human Services	Medical Assistance Program	Special Tests and Provisions - Medicaid Fraud Control Unit (MFCU)	93.778	Repeated. Finding No. 2014-034
12-09	U.S. Department of Labor / U.S. Department of Transportation / U.S. Department of Health and Human Services	Unemployment Insurance / Highway Planning and Construction / Medical Assistance Program	Cash Management	17.225 20.205/ 20.205 - ARRA 93.778	Corrected. Repeated. Finding No. 2014-050 / 2014-031
12-10	U.S. Department of Justice	Violence Against Women Formula Grants	Reporting	16.588 16.588 - ARRA	Corrected.
12-11	U.S. Department of Justice	JAG Cluster	Reporting	16.738 16.803 - ARRA	Corrected.
12-14	U.S. Department of Health and Human Services	Temporary Assistance for Needy Families	Special Tests and Provisions - Income Eligibility and Verification System (IEVS)	93.558	Repeated. Finding No. 2014-025

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings
Year Ended September 30, 2014

Finding Number	Federal Government Agency	Program Name	Type of Finding	Program CFDA #	Current Status
12-15	U.S. Department of Health and Human Services	Medical Assistance Program	Special Tests and Provisions - Utilization Control & Program Integrity	93.778	Repeated. Finding No. 2014-033
12-16	U.S. Department of Health and Human Services	Medical Assistance Program	Special Tests and Provisions - Inpatient Hospital and Long-term Care Facility Audits	93.778	Repeated. Finding No. 2014-035
12-17	U.S. Department of Health and Human Services	Medical Assistance Program	Special Tests and Provisions - ADP Risk and System Security Review	93.778	Repeated. Finding No. 2014-036
12-20	U.S. Department of Health and Human Services	Medical Assistance Program	Allowable Costs/Cost Principles - Recoveries, Refunds, and Rebates	93.778	Repeated. Finding No. 2014-030
12-21	U.S. Department of Health and Human Services	Medical Assistance Program	Special Tests and Provisions - Medicaid Fraud Control Unit (MFCU)	93.778	Repeated. Finding No. 2014-034