Financial Statements and Other Financial Information

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)
Years Ended September 30, 2007 and 2006
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Financial Statements
and Other Financial Information

Years Ended September 30, 2007 and 2006

Contents

Ernst & Young LLP
1000 Scotiabank Plaza
273 Ponce de León Avenue
San Juan, PR 00917-1951
Tel: 787 759 8212
Fax: 787 753 0808
www.ey.com

Report of Independent Auditors

The Board of Directors
Virgin Islands Port Authority

We have audited the accompanying basic financial statements of the Virgin Islands Port Authority (the Authority), a component unit of the Government of the U.S. Virgin Islands, as of and for the years ended September 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virgin Islands Port Authority as of September 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2009, on our consideration of the Authority'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* and should be considered in assessing the results of our audits.

Management's discussion and analysis on pages 3 through 11 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of expressing an opinion on the Authority's basic financial statements. The other financial information and notes, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other financial information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

May 14, 2009

Management's Discussion and Analysis

The purpose of the following discussion and analysis of the financial performance and activity of the Virgin Islands Port Authority (the Authority) is to provide an introduction to help understand the basic financial statements of the Authority for the years ended September 30, 2007 and 2006, with selected comparative information for the year ended September 30, 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Reporting Entity

The Authority is a public corporation and an autonomous governmental instrumentality of the Government of the U.S. Virgin Islands. The Authority owns and operates the air and marine terminals of the U.S. Virgin Islands through two operating divisions, Aviation and Marine.

The Aviation Division manages two airport facilities, the Cyril E. King Airport (CEKA) located on the Island of St. Thomas and the Henry E. Rohlsen Airport (HERA) located on the island of St. Croix. The division's revenues consist mainly of landing and passenger fees and rental income. The Division also generates a small amount of revenues from the leases of a housing complex and certain properties outside the airport facilities, which are known as Special Facilities.

The Marine Division is responsible for the maintenance and operation of marine cargo and passenger facilities in St. Thomas, St. Croix and St. John. Revenues are mostly derived from charges to cruise ship lines and cargo lines, including property rental fees.

Using the Financial Statements

The Authority's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the *Government Accounting Standards Board* (GASB).

Financial Highlights

Operating Revenues

The total operating revenues for the Virgin Islands Port Authority for fiscal years 2007 and 2006 are $44.1 million and $39.3 million, respectively. The fluctuation in operating revenues when compared to fiscal year 2006 is an increase of $4.8 million or 12.2% in operating revenues. The aviation division received approximately .77% more revenues in 2007 than 2006. The 2006 marine revenues also increased approximately 24.8% over 2006.

In 2007, the increase in aviation revenue was more significant in rental income. On St. Croix land rental increased significantly from the lease of approximately 36 acres of land at the Henry E. Rohlsen Airport. Additionally, other areas that resulted with increased revenues were income from airline counter space rental at HERA, space rental from auto agencies at CEKA, cargo building rental at both CEKA & HERA, gifts shops at CEKA, office space, restaurant space rental at CEKA, and advertising income; all of the aforementioned revenue categories increased during fiscal year 2007.

In fiscal year 2006, the increase in aviation revenue over fiscal year 2005 resulted from an increase in other revenues, while rentals and user fees and dues declined. The increase in other revenues was due to an increase in enplanements, while a decrease in user dues was due to the change in signatory ($2.50) and non-signatory ($3.15) fees to a user fee of $2.50 per 1,000 pound.

In fiscal year 2007, the decline in user fees resulted from a decrease in enplanements at the Henry E. Rohlsen Airport. At the Cyril E. King Airport enplanements increased by approximately 5,700 passengers and at Henry E. Rohlsen enplanement decreased by approximately 11,000 passengers.

The effect of the new Marine Tariff that became effective March 1, 2006 was a 5.5% increase in marine revenue in fiscal year 2006. User fees and dues, rentals, and wharfage dues increased positively while other income declined. Additionally, increase in wharfage and user fees resulted from increased activity of 70.5% after the completion of the dredging and extension of the Crown Bay dock.

The following table details the components of and changes in revenue:

	2007	2006	2005	Change 2007	Change 2006
(In thousands of dollars)					
Aviation operating revenues:					
Users' fees and dues	**$ 12,400**	$ 12,816	$ 12,863	$ (416)	$ (47)
Rentals	**5,225**	4,611	4,986	614	(375)
Others	**3,137**	3,177	2,139	(40)	1,038
Total Aviation operating revenues	**20,762**	20,604	19,988	158	616
Marine operating revenues:					
Users' fees and dues	**14,237**	12,572	11,743	1,665	829
Wharfage dues	**5,275**	2,903	2,594	2,372	309
Rentals	**3,343**	2,698	2,526	645	172
Others	**457**	502	524	(45)	(22)
Total Marine operating revenues	**23,312**	18,675	17,387	4,637	1,288
Total operating revenues	**$ 44,074**	$ 39,279	$ 37,375	$ 4,795	$ 1,904

Operating Expenses

Operating expenses increased by approximately 3.13% and 9.1% in fiscal years 2007 and 2006, respectively. Payroll, taxes and fringe benefits increased by 2.5%. Repairs and maintenance increased 8.26%. Utilities usage decreased during fiscal year 2007 by 3.13%. Professional and other services increased 43% due to increase in Security Guard Services at various facilities; this resulted from Federal guidelines to secure the marine ports. Legal services increased due to litigation cost from various sources. Insurance increased 25.4% due to added facilities such as Crown Bay and Enighted Pond along with other facilities not previously insured.

	2007	2006	2005	Change 2007	Change 2006
(In thousands of dollars)					
Payroll, payroll taxes and fringe benefits	**$ 16,125**	$ 15,731	$ 15,090	$ 394	$ 641
Repairs and maintenance	**2,725**	2,518	2,811	207	(293)
Materials, supplies and other services	**5,017**	3,792	3,551	1,225	241
Insurance	**3,707**	2,955	2,376	752	579
Depreciation	**17,701**	17,637	15,168	64	2,469
Other operating expenses	**4,373**	5,481	5,913	(1,108)	(432)
Total operating expenses	**$ 49,648**	$ 48,114	$ 44,909	$ 1,534	$ 3,205

The increase in payroll related expenses remained fairly consistent during fiscal years 2007 and 2006 due to the management initiative to reduce personnel cost. Also consistent with 2006, during 2007 vacant positions were not filled.

Non-Operating Revenues and Expenses

The Authority has permission from the FAA to collect passenger facilities charges ("PFC") of $3.00 for each passenger departing from CEKA and HERA. These funds are restricted for certain capital projects as established by the Aviation Safety and Capacity Expansion Act of 1990. The Authority collected $ 1.5 million and $1.4 million of PFC revenue in fiscal years 2007 and 2006, respectively.

Capital Contributions

Capital contributions are received from the U.S. Government, mainly the Federal Aviation Administration (FAA), U.S. Federal Highway Administration (FHWA), Economic Development Administration (EDA) and the Government of the U.S. Virgin Islands to fund capital projects. In fiscal years 2007 and 2006, federal grants amounted to $9.0 million and $2.8 million, respectively. Federal funds received from FAA were used to rehabilitate the Cyril E. King Airport taxi lane; total received in 2007 $2.4 million. Additionally, $1.5 million was used towards the build out of the Red Hook terminal and dock facility. Other federal funds received, $.33 million were for the hiring of security officers on St. Croix by TSA; these officers worked at security check points at HERA.

Changes in Net Assets

Total net assets, which represent the excess of assets over liabilities, for the Authority increased by $3.5 million in fiscal year 2007. This change resulted from total operating expenditures of $49.6 million, offset by revenues of $44.0 million, net non-operating revenues of $ 0.1 million and capital contributions of $ 9.0 million.

Statements of Net Assets

The Statement of net assets presents the financial position of the Authority at the end of the fiscal year. A summarized comparison of the Authority's assets, liabilities and net assets at September 30, 2007, 2006, and 2005 is as follows:

(In thousands of dollars)	**2007**	2006	2005
Assets			
Current assets	**$ 33,557**	$ 30,649	$ 32,273
Non-current assets:			
Capital assets, net	**267,328**	270,776	275,080
Other non-current assets	**5,394**	3,888	3,941
Total assets	**$ 306,279**	$ 305,313	$ 311,294
Liabilities and Net Assets			
Liabilities:			
Current liabilities	**$ 11,326**	$ 12,182	$ 11,647
Non-current liabilities - bonds payable	**38,441**	40,153	40,424
Total liabilities	**49,767**	52,335	52,071
Net assets:			
Invested in capital assets, net of related debt	**227,199**	228,998	234,084
Restricted	**8,835**	8,808	6,890
Unrestricted	**20,478**	15,172	18,249
Total net assets	**$ 256,512**	$ 252,978	$ 259,223

During fiscal year 2007, the net decrease in capital assets amounting to $3.5 million was comprised of additions to capital assets amounting to $14.2 million, net of depreciation expense of $17.7 million. The most significant additions were related to the following capital projects:

	2007	**2006**	**2005**
Ann A Abramson Pier (Dredging)	**$0.44 million**	$1.88 million	–
Acquisition of land surrounding HERA to permit the runway extention	**$0.02 million**	–	–
Construction of the marine terminal at Enighted Pond	**$0.26 million**	$0.23 million	$1.8 million
Construction of marine terminal at Red Hook	**$2.06 million**	$1.85 million	$4.0 million
Resurface Cyril E. King Taxi Lane	**$5.83 million**	–	–
Dredging and improvement of marine facilities	**$1.48 million**	$0.88 million	–
Crown Bay Dock and retail development	**$0.93 million**	$3.95 million	–
Cyril E. King Airport -Baggage Belt	**$1.1 million**	–	$9.3 million

Capital Financing and Debt Management

The Authority has two bond issues outstanding as of September 30, 2006. They are the 2003 Marine Revenue Series A&B Bonds, and the 2003 Marine Revenue Series C Bonds.

The Marine Revenue Bonds were used to finance the dredging, rehabilitation and construction of the Crown Bay Pier in St. Thomas and the construction of a mixed used commercial complex at Crown Bay The Marine Revenue Bonds were issued in a two part series of 2003A (AMT) and 2003B (federally taxable), in principal amounts of $18 million and $17 million.

A summary of the Marine Bonds' terms follows:

	Interest Rate
$ 5,930,000 Series A, due serially from 2015 through 2018	5.25%
$12,075,000 Series A, due serially from 2019 through 2023	5.00%
$ 6,745,000 Series B, due serially from 2003 through 2008	3.54%
$ 7,245,000 Series B, due serially from 2009 through 2013	5.08%
$ 3,435,000 Series B, due serially from 2014 through 2015	5.43%

The aggregate balance as of September 30, 2007 and 2006, for the Marine Revenue Bonds Series A&B is $29.9 million and $31.2 million, respectively.

In October of 2003, the Authority entered into an agreement with Banco Popular to finance the Authority's portion or the construction of the Red Hook Terminal, renovation of the Gallows Bay Dock, St. Croix and the dredging of the Crown Bay and Charlotte Amalie Harbor. This bond issuance is labeled Marine Series C Bonds. The financing for these projects were completed on September 30, 2005 in an amount not to exceed $10.8 million. At the close of fiscal year 2007, the amount drawn down from the Marine Series C Bonds was $10.4 million.

As of September 30, 2006, the Marine revenue bonds outstanding amounted to $41.6 million, a decrease of $0.3 million compared to the balance outstanding as of September 30, 2005. The bonds outstanding as of September 30, 2005, consisted of the Marine Revenues series A,B&C Bonds.

As discussed in Note 6 to the financial statements, both bond indentures require a debt service coverage ratio of not less than 125%. This debt service coverage is calculated based on a formula described in Note 6. In fiscal years 2007 and 2006, the Authority complied with the debt service coverage of the Bonds.

As explained in Note 7 to the financial statements, the Authority has long-term use agreements with several air carriers (the signatory airlines) for use of the Airport System, the facilities covered by the Airport Revenue Bonds. Under the terms of the agreement, the signatory airlines have agreed to a fee structure that should be sufficient to comply with the debt service coverage requirement. Therefore, based on the advice of its independent rate consultants, the Authority increased the landing and passenger fees rates on February 1, 2003 by 25%. However, since Airport Revenue Bonds were paid-off by September 30, 2003, the Authority decided to decrease rates effective October 1, 2003 to the same level that was in effect prior to the February 2003 adjustment.

Contingencies

St. Croix Municipal Landfill at Estate Anguilla.
The failure of the Government of the Virgin Islands to address the problems of the landfill and to address the fulfillment of the approved Compliance Plan between the Department of Public Works and the Federal Aviation Administration (FAA) continues to affect the Authority. The Authority is maintaining the airfields at Henry E. Rohlsen and Cyril E. King Airport mostly with federal financial assistance in the past from FAA's Airport Improvement (AIP) Grant Program and from the Discretionary funds. The AIP funds are allocated by formula or other entitlement processes. Discretionary funds are administered by the Secretary of Transportation. Since 1982, the Port Authority has received approximately $143 million in entitlement and discretionary funds combined. A total of $40 million in Entitlement funds and $46 million in Discretionary funds for Cyril E. King Airport, and $42 million in Entitlement funds and $15 million in Discretionary funds for Henry E. Rohlsen Airport have been received.

The FAA has decided not to accept any request for discretionary funds from the Authority until timely closure of the landfill is achieved and a long-term solution is decided sometime during fiscal year 2006. To date the solution remains pending.

Yellow Cedar Acquisitions
As a results of an audit performed by the Virgin Islands Inspector General's Office of the real property acquisition by the Virgin Islands Port Authority at Yellow Cedar, St. Croix, Virgin Islands, the Federal Aviation Administration (FAA) District Office, has decided to withhold federal funds in the amount of $1,283,750 from the Authority. Numerous parcels of land and improved properties were acquired from 2000 to 2003 with the expectation that a refund would be made pursuant to an approved grant award. The FAA has indicated that if the Authority were to produce the documents in compliance with the Uniform Act 49 Code of Federal Regulations, Part 24 and the grant assurances for land acquisition and relocation assistance, then it would consider lifting its ban on releasing the funds. To date the Authority has not met the Federal guidelines, thus the funds remains withheld.

Financial assistance was awarded to the Authority from 1990 to 2002, totaling $8,023,649, to acquire various parcels of land located at Yellow Cedar, adjacent to the Henry E. Rohlsen Airport on St. Croix. Although numerous parcels have been acquired, there are additional parcels yet to be acquired. During fiscal year 2006 and 2007, the Authority acquired several parcels with its own funding.

The audit performed by the Office of the VI Inspector resulted from a request from the Virgin Islands Port Authority Executive Director, in the latter part of 2004. The audit disclosed that the Port Authority did not always follow established guidelines with respect to purchasing of properties at Yellow Cedar. It found that: "(i) in some instances, approved property purchases were from grants other than those authorized; (ii) in some instances, approved appraisal reports were not used as the basis for the VI Port Authority's initial written offer to purchase; and (iii) the VI Port Authority did not document the reason(s) for paying in excess of the VI Port Authority's and the land owners' appraisal when purchasing some properties."

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Statements of Net Assets

(In thousands of dollars)

	September 30	
	2007	**2006**
Assets		
Current assets:		
Cash and cash equivalents (restricted - $2,224 in 2007 and $2,607 in 2006)	**$ 15,065**	$ 14,721
Accounts receivable - net of allowance for doubtful accounts of $1,438 in 2007 and $1,417 in 2006	**4,932**	3,783
Short-term investments	**363**	355
Sinking funds (restricted)	**2,680**	3,875
Receivables from U.S. Government agencies	**5,126**	2,037
Receivables from the Government of the U.S. Virgin Islands	**2,438**	3,016
Prepaid insurance	**2,472**	2,377
Other current assets	**481**	485
Total current assets	**33,557**	30,649
Noncurrent assets:		
Capital assets, net	**267,328**	270,776
Sinking funds (restricted)	**3,931**	2,326
Debt issue costs	**1,463**	1,562
Total noncurrent assets	**272,722**	274,664
Total assets	**306,279**	305,313

(Continued)

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Statements of Net Assets (continued)

(In thousands of dollars)

	September 30	
	2007	**2006**
Liabilities and net assets		
Current liabilites:		
Note payable	**1,514**	1,460
Bonds payable	**1,688**	1,625
Accounts payable related to capital projects, including retainage on contracts	**2,460**	1,633
Compensated absences payable	**1,853**	1,878
Other accounts payable and accrued liabilities	**3,811**	5,586
Total current liabilities	**11,326**	12,182
Noncurrent liabilities:		
Bonds payable	**38,441**	40,153
Total liabilites	**49,767**	52,335
Net assets:		
Invested in capital assets, net of related debt	**227,199**	228,998
Restricted	**8,835**	8,808
Unrestricted	**20,478**	15,172
Total net assets	**$ 256,512**	$ 252,978

See accompanying notes.

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Statements of Revenues, Expenses and Changes in Net Assets

(In thousands of dollars)

	Year Ended September 30	
	2007	**2008**
Operating revenues		
Aviation	**$ 20,762**	$ 20,604
Marine	**23,312**	18,675
	44,074	39,279
Operating expenses		
Payroll, payroll taxes and fringe benefits	**16,125**	15,731
Repairs and maintenance	**2,725**	2,518
Materials, supplies and other services	**5,017**	3,792
Insurance	**3,707**	2,955
Depreciation	**17,701**	17,637
Other operating expenses	**4,373**	5,481
Total operating expenses	**49,648**	48,114
Operating loss	**(5,574)**	(8,835)
Non-operating revenues (expenses)		
Passenger facilities charges	**1,470**	1,439
Interest income	**658**	670
Interest expense	**(1,988)**	(2,315)
Total non-operating revenues (expenses), net	**140**	(206)
Change in net assets before capital contributions	**(5,434)**	(9,041)
Federal and state government capital contributions	**8,968**	2,796
Change in net assets	**3,534**	(6,245)
Net assets at beginning of year	**252,978**	259,223
Net assets at end of year	**$ 256,512**	$ 252,978

See accompanying notes.

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Statements of Cash Flows

(In thousands of dollars)

	Year Ended September 30	
	2007	2006
Cash flows from operating activities		
Cash received from customers and others	**$ 43,531**	$ 39,298
Cash paid to suppliers and employees, net of capitalized expenses	**(33,770)**	(28,454)
Net cash provided by operating activities	**9,761**	10,844
Cash flows from investing activities		
Decrease in investments	**(22)**	262
Purchase of US Treasury Notes	**(1,591)**	–
Interest received from investments	**639**	762
Net cash (used in) provided by investing activities	**(974)**	1,024
Cash flows from capital and related financing activities		
Acquisition of capital assets	**(13,430)**	(16,034)
Proceeds from marine bond issue and note payable	**2,523**	3,808
Principal payments on bonds payable and note payable	**(4,094)**	(3,487)
Interest paid on bonds	**(1,986)**	(2,068)
Cash received from U.S. Government agencies and local government	**5,879**	1,912
Passenger facilities charges	**1,470**	1,439
Net cash used in capital and related financing activities	**(9,638)**	(14,430)
Net change in cash and cash equivalents	**(851)**	(2,562)
Cash and cash equivalents at beginning of year	**18,596**	21,158
Cash and cash equivalents at end of year	**$ 17,745**	$ 18,596
Cash and cash equivalents include		
Unrestricted and restriced cash and cash equivalents	**$ 15,065**	$ 14,721
Cash and cash equivalents restricted in sinking funds	**2,680**	3,875
	$ 17,745	$ 18,596

(Continued)

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Statements of Cash Flows (continued)

(In thousands of dollars)

	Year Ended September 30 2007	2006
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	**$ (5,574)**	$ (8,835)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	**17,701**	17,637
Capital asset write-off	**4**	514
Bond issuance cost	**99**	53
Premium amortization	**(24)**	(27)
Receivable write-off	**83**	235
Provision for uncollectibles	**21**	–
Change in assets and liabilities:		
Accounts receivable	**(1,121)**	69
Receivable from the Government of the U.S. Virgin Islands	**578**	(50)
Prepaid insurance	**(95)**	(872)
Other assets	**(109)**	131
Accounts payable and other accrued liabilities	**(1,802)**	1,989
Total adjustments	**15,335**	19,679
Net cash provided by operating activities	**$ 9,761**	$ 10,844

See accompanying notes.

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Virgin Islands Port Authority (the Authority) was created by Act 2375 of December 23, 1968, to operate as an autonomous agency. The Authority commenced operations on February 11, 1969, by virtue of Act 2405. The Authority owns and manages the air and marine terminals of the U.S. Virgin Islands.

The Authority is a component unit of the Government of the U.S. Virgin Islands (Government) and, therefore, the financial statements of the Authority are not intended to present fairly the financial position and results of operations of the Government of the U.S. Virgin Islands. Only the accounts of the Authority are included in the reporting entity. There are no component units that should be considered for inclusion in the Authority's financial statements.

Summary of Significant Accounting Policies

Basis of Accounting

The Authority prepares its financial statements in conformity with U.S. generally accepted accounting principles for governmental enterprise funds as prescribed by the Government Accounting Standards Board (GASB). In addition, the Authority follows all Financial Accounting Standard Board pronouncements issued prior to November 30, 1989, and certain other pronouncements subsequent to that date that do not conflict with GASB standards.

The financial statements are prepared on the accrual basis of accounting. Under this method revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

Basic Financial Statements

Standards for external financial reporting for state and local governments require that resources be classified for accounting and reporting purposes into net assets categories and to report the changes in net assets. Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consist of the following categories:

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Basic Financial Statements (continued)

- *Invested in capital assets, net of related debt:* Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The portion of debt attributed to the unspent debt proceeds is included in the same net asset component as the unspent proceeds.

- *Restricted:* Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by the actions of the Authority pursuant to those stipulations or that expire by the passage of time.

- *Unrestricted:* Net assets that are not subject to externally imposed stipulations.

Sources of Income

The Authority derives most of its income from user fees and rental charges. These amounts are charged to the users of its airports, harbors and terminal facilities at St. Thomas, St. Croix and St. John and recorded as operating revenues. The Authority is empowered by law to establish and charge the necessary fees and dues to permit the recovery of facility costs.

Passenger Facilities Charges (PFCs)

The airlines that use the Authority's airport facilities collect a PFC of $3 per passenger from travelers leaving the U.S. Virgin Islands. As approved by the Federal Aviation Administration (FAA), the use of funds generated by the PFC is restricted for the construction of certain FAA approved capital projects. The PFCs, less an administrative fee charged by the airlines for processing, are collected by the airlines and remitted on a monthly basis to the Authority. The Authority recognizes the revenues when it receives the PFCs collected by airlines. Due to their restricted use, PFCs are categorized as non-operating revenues and are recorded as restricted net assets until the funds are expended. Once funds generated by PFCs are used in the construction of the FAA approved projects, such amounts are transferred to net assets invested in capital assets, net of related debt.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Grants and Contributions from Federal and State Government Grants

The Authority receives federal and state government grants mainly to support its capital construction program. The assets and revenues arising from government grants are recorded when the Authority meets the eligibility requirements. Grants for capital projects are reported as other revenues. If resources are received in advance of satisfying certain eligibility requirements, the recognition of revenues is deferred.

Cash Equivalents

The Authority considers non-negotiable certificates of deposit and highly-liquid investments with a maturity of three months or less when purchased, excluding those in sinking funds accounts, to be cash equivalents in the accompanying statements of net assets. For purposes of the statements of cash flows, cash and cash equivalents also include the restricted balances deposited in the sinking funds.

Accounts Receivable

Accounts receivable are recorded at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The adequacy of the allowance for doubtful accounts is evaluated by management based upon past collection experience and customers' financial condition.

Investments

Investments are recorded at fair value in the statement of net assets and report changes in their fair value in the statement of revenues, expenses and changes in net assets as non-operating revenue or expense. Fair value of investments is based on quoted market prices. Short-term investments, which consist of non-negotiable certificates of deposits and other highly liquid investments such as U.S. Government and agencies securities with a maturity of less than one year when purchased, are carried at amortized cost, which approximates fair value due to their short term maturities. Nonparticipating guaranteed investment contracts are also carried at amortized cost.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Investments (continued)

The Authority maintains certain investments deposited in sinking funds that are restricted for specific uses in accordance with the corresponding bond indentures. These investments are presented in the statement of net assets within the sinking fund balances (see Note 3).

Interest

Interest on funds used to finance construction of qualifying projects is capitalized unless it has been funded with internally generated funds or government grants limited for use in such projects. Capitalized interest expense is reduced by interest income earned on related investments acquired with proceeds of tax exempt borrowings. During 2007 and 2006, no interest expense was capitalized.

Capital Assets

Land transferred from the United States Government or from the Government of the U.S. Virgin Islands is carried at the Government's original cost if the information is available; if not, it is carried at amounts estimated by management to approximate cost at the time the properties were acquired by the U.S. Virgin Islands from the United States Government. Depreciable assets transferred at inception by the Government of the U.S. Virgin Islands are carried at amounts estimated based on total capital expenditures incurred by predecessor agencies. Depreciation has been accumulated on such assets from the dates the predecessor agencies incurred the expenditures, and placed the assets in operation, based on their estimated average life. All other capital assets are carried at cost.

Depreciation is calculated using the straight-line method over the estimated useful lives of the individual assets. Estimated useful lives of capital assets are as follows:

	Years
Buildings and structures	20 - 40
Runways, aprons and pavings	10
Equipment	5 - 10
Land improvements	20

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

When assets are retired, the cost and related accumulated depreciation of the property is removed from the accounts and any gain or loss is recognized as non-operating revenue or expense. Expenditures for major renewals and betterments are capitalized, while maintenance and repairs which do not extend the life of the assets are recorded as expenses.

Debt Issue Costs and Original Bond Issue Premium

Bond and notes premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance cost is reported separately on the statement of net assets, amortized over the term of the related debt.

Compensated Absences

Unpaid vacation and sick leave compensation, as well as the Authority's share of related social security taxes, are accrued as benefits when earned by the employees if attributable to past services and if it is probable the Authority will compensate the employees for such benefits. Amounts accrued are measured using salary rates in effect at September 30.

Pension Plan

The Authority follows the provisions of GASB Statement No. 27. Under this statement, the pension expense is equal to the statutory required contribution to the plan.

Fair Values of Financial Instruments

The Authority uses the following methods and assumptions in estimating its fair value disclosures:

Investment securities held in sinking funds are valued at quoted market prices when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or from values obtained from independent pricing sources.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Fair Values of Financial Instruments (continued)

The carrying amounts of cash and cash equivalents, money market investments, accounts receivable and other receivables, accounts payable and other accrued liabilities approximate their fair values given the short-term nature of the instruments.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Cash and cash equivalents, segregated by category at September 30, 2007 and 2006, are as follows (in thousands of dollars):

	2007		**2006**	
	Bank Balance	**Carrying Amount**	**Bank Balance**	**Carrying Amount**
Restricted	**$ 2,224**	**$ 2,224**	$ 2,607	$ 2,607
Unrestricted	**14,305**	**12,841**	13,092	12,114
	$ 16,529	**$ 15,065**	$ 15,699	$ 14,721

At September 30, 2007 and 2006, restricted cash and cash equivalents consisted of PFC's deposited in interest bearing accounts. Unrestricted cash and cash equivalents may be used for operational purposes.

2. Cash and Cash Equivalents (continued)

As of September 30, 2007, $13,686 million, or 82.8% of the Authority's deposits in banks were held at Banco Popular de Puerto Rico. Uncollateralized deposits at Banco Popular de Puerto Rico and other financial institutions amounted to approximately $16.5 million in 2007.

As of September 30, 2006, $13,720 million, or 87.4% of the Authority's deposits in banks were held at Banco Popular de Puerto Rico. Uncollateralized deposits at Banco Popular de Puerto Rico and other financial institutions amounted to approximately $15.7 million in 2006.

3. Sinking Funds and Short-Term Investments

The amounts deposited in the sinking funds are restricted for specific uses in accordance with the corresponding bond indentures, mainly for construction and maintenance of airports and marine facilities. The bond indentures also require the Authority to maintain certain balances to cover the bonds debt service reserves (see Note 6). The Authority is not permitted to use these funds for any other purpose.

Investments in the reserve accounts at September 30, 2007 were as follows (in thousands of dollars):

	2003 Series A & B Marine Revenue Bonds	2003 Series C Marine Revenue Bonds	Total
Restricted:			
Debt service reserve	$ 4,767	$ 766	$ 5,533
Construction	9	9	18
Operating maintenance renewal and replacement funds	1,059	1	1,060
	$ 5,835	$ 776	$ 6,611

3. Sinking Funds and Short-Term Investments (continued)

Investments in the reserve accounts at September 30, 2006 were as follows (in thousands of dollars):

	2003 Series A & B Marine Revenue Bonds	2003 Series C Marine Revenue Bonds	Total
Restricted:			
Debt service reserve	$ 4,449	$ 734	$ 5,183
Construction	5	–	5
Operating maintenance renewal and replacement funds	1,007	6	1,013
	$ 5,461	$ 740	$ 6,201

Restricted investments, categorized by investment type, and weighted average maturity, for 2007 and 2006, are as follows (in thousands of dollars):

	2007		2006	
	Fair Value	Weighted Avg. Maturity (Years)	Fair Value	Weighted Avg. Maturity (Years)
Money Market funds and cash equivalents	**$ 2,680**		$ 3,875	
Portfolio investments:				
U.S. government agencies notes	**3,931**	**3.30**	2,326	3.57
Total investments	**$ 6,611**		$ 6,201	

3. Sinking Funds and Short-Term Investments (continued)

Interest Rate Risk

Interest rate risk represents the exposure to fair value losses arising from increasing interest rates. The Authority 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, all investments held by the Authority are short term in nature.

Credit Risk

The authorizing legislation of the Authority does not limit investments by credit rating categories. Authorizing legislation limits the investment choices of the Authority 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 deposits, guaranteed investment contracts, shares in mutual funds and, investment companies, corporate commercial paper, money market accounts and investment pools.

Concentration of Credit Risk

The Authority places no limit on the amount that may be invested in one issuer. At September 30, 2007, more than 5% of the Authority's investments were invested in: HSBC Bank U.S.A. cash and cash equivalents accounts (23%), U.S. Treasury Obligations (61%), Money Market Obligations (Federated Treasury Obligations (less than 1%), and BPPR time deposit account (16%).

At September 30, 2006, more than 5% of the Authority's investments were invested in: HSBC Bank U.S.A. cash and cash equivalents accounts (46%), U.S. Treasury Obligations (38%), Money Market Obligations (Federated Treasury Obligations (less than 1%), and BPPR time deposit account (16%).

3. Sinking Funds and Short-Term Investments (continued)

Custodial Credit Risk

The Authority does not have a custodial risk policy. This is the risk that the Government will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2007, all investments of the Authority were held in the name of HSBC Bank USA, N.A., as Trustee for the Authority. Investments in the trust accounts are limited to the investments permitted by the trust indenture.

4. Capital Assets

Capital assets as of September 30, 2007 comprise as follows:

(In thousands of dollars)	2006	Increase	Decrease	Transfers	2007
Capital assets not being depreciated:					
Land	$ 20,675	$ 23	$ –	$ –	**$ 20,698**
Construction in progress	10,512	13,608	–	(23,080)	**1,040**
Total capital assets not being depreciated	31,187	13,631	–	(23,080)	**21,738**
Capital assets being depreciated:					
Buildings and structures	281,490	–	–	10,170	**291,660**
Runways, aprons and pavings	108,651	–	–	7,803	**116,454**
Equipment	15,300	626	(9)	2,378	**18,295**
Land and harbor improvements	33,075	–	–	2,729	**35,804**
Total capital assets being depreciated	438,516	626	(9)	23,080	**462,213**
Accumulated depreciation for:					
Buildings and structures	(105,356)	(9,208)	–	–	**(114,564)**
Runways, aprons and pavings	(74,076)	(4,538)	–	–	**(78,614)**
Equipment	(8,960)	(1,206)	5	–	**(10,161)**
Land and harbor improvements	(10,535)	(2,749)	–	–	**(13,284)**
Total accumulated depreciation	(198,927)	(17,701)	5	–	**(216,623)**
Total capital assets, net	$ 270,776	$ (3,444)	$ (4)	$ –	**$ 267,328**

4. Capital Assets (Continued)

Capital assets as of September 30, 2006 comprise as follows:

(In thousands of dollars)	2005	Increase	Decrease	Transfers	2006
Capital assets not being depreciated:					
Land	$ 20,277	$ 419	$ –	$ (21)	**$ 20,675**
Construction in progress	8,745	13,679	(893)	(11,019)	**10,512**
Total capital assets not being depreciated	29,022	14,098	(893)	(11,040)	**31,187**
Capital assets being depreciated:					
Buildings and structures	276,086	109	–	5,295	**281,490**
Runways, aprons and pavings	107,653	86	–	912	**108,651**
Equipment	17,251	416	(1,784)	(583)	**15,300**
Land and harbor improvements	27,659	–	–	5,416	**33,075**
Total capital assets being depreciated	428,649	611	(1,784)	11,040	**438,516**
Accumulated depreciation for:					
Buildings and structures	(95,937)	(9,419)	–	–	**(105,356)**
Runways, aprons and pavings	(69,365)	(4,711)	–	–	**(74,076)**
Equipment	(10,153)	(1,058)	1,301	950	**(8,960)**
Land and harbor improvements	(7,136)	(2,449)	–	(950)	**(10,535)**
Total accumulated depreciation	(182,591)	(17,637)	1,301	–	**(198,927)**
Total capital assets, net	$ 275,080	$ (2,928)	$ (1,376)	$ –	**$ 270,776**

In fiscal year 2006, the Authority wrote off equipment with a net book value of approximately $514,000 resulting from a physical inventory. Subsequently to the balance sheet date, the Authority was released of approximately $862,000 of retainage due through a legal settlement, decreasing the balance of construction in progress and accounts payable related to capital projects including retainage on contracts.

5. Note Payable

In 2007, the Authority borrowed approximately $2.5 million to finance certain insurance premiums. The loan bears interest at 6.25% and is payable in monthly installments over periods not exceeding 11 months. The balance outstanding as of September 30, 2007 was approximately $1.5 million.

5. Note Payable (continued)

In 2006, the Authority borrowed approximately $2.6 million to finance certain insurance premiums. The loans bear interest ranging from 6.49% to 5.9% and are payable in monthly installments over periods not exceeding 11 months. The balance outstanding as of September 30, 2006 was approximately $1.5 million.

Changes in note payable for the year ended September 30, 2007 and 2006 follow (in thousands of dollars):

	2006	Increase	Decrease	2007
Insurance loan at 6.25%	$ –	$ 2,523	$ (1,009)	**$ 1,514**
Insurance loan at 6.49%	159		(159)	–
Insurance loan at 5.90%	1,301	–	(1,301)	–
	$ 1,460	$ 2,523	$ (2,469)	**$ 1,514**

	2005	Increase	Decrease	2006
Insurance loan at 5.39%	$ 705	$ –	$ (705)	**$ –**
Insurance loan at 4.99%	130	–	(130)	–
Insurance loan at 6.49%	–	437	(278)	**159**
Insurance loan at 5.90%	–	2,169	(868)	**1,301**
Promissory note	75	–	(75)	–
	$ 205	$ 2,606	$ (2,056)	**$ 1,460**

6. Bonds Payable

At September 30, 2007 and 2006, bonds payable consist of:

(In thousands of dollars)	2007	2006
Marine Division:		
2003 Marine Revenue Bonds, $18,005 Series A; due serially from September 1, 2005, through September 1, 2023, bearing interest ranging from 5.00% to 5.25%	**$ 18,005**	$ 18,005
2003 Marine Revenue Bonds, $17,425 Series B; due serially through September 1, 2015 bearing interest ranging from 3.73% to 5.43%	**11,935**	13,145
2003 Marine Revenue Draw Bods, up to $10,750 Series C; due serially, through September1, 2023 and bearing interest of 4.40%	**10,002**	10,417
	39,942	41,567
Debt premium	**187**	211
Less current portion of long-term debt	**(1,688)**	(1,625)
	$ 38,441	$ 40,153

The aggregate debt service requirements of bonds payable at September 30, 2007 follow:

(In thousands of dollards)

Years	Principal	Interest	Total
2008	1,688	1,940	3,628
2009	1,758	1,869	3,627
2010	1,848	1,782	3,630
2011	1,939	1,690	3,629
2012	2,036	1,594	3,630
2013 through 2017	11,835	6,308	18,143
2018 through 2022	15,151	2,991	18,142
2023 through 2024	3,687	136	3,823
Total	$ 39,942	$ 18,310	$ 58,252

6. Bonds Payable (continued)

Changes in bonds payable for the years ended September 30, 2007 and 2006, follow:

(In thousands of dollars)	2006	Increase	Decrease	2007
2003 Series A Marine Revenue Bonds	$ 18,005	$ –	$ –	**18,005**
2003 Series B Marine Revenue Bonds	13,145	–	(1,210)	**11,935**
2003 Series C Marine Revenue Bonds	10,417	–	(415)	**10,002**
Premium and debt issue costs	211	–	(24)	**187**
	$ 41,778	$ –	$ (1,649)	**$ 40,129**

(In thousands of dollars)	2005	Increase	Decrease	2006
2003 Series A Marine Revenue Bonds	$ 18,005	$ –	$ –	$ 18,005
2003 Series B Marine Revenue Bonds	14,315	–	(1,170)	13,145
2003 Series C Marine Revenue Bonds	9,476	1,274	(333)	10,417
Premium and debt issue costs	238	–	(27)	211
	$ 42,034	$ 1,274	$ (1,530)	$ 41,778

The Marine Revenue Bonds do not constitute general obligations of the Authority, the Aviation Division, the Marine Division, the U.S. Virgin Islands or the United States of America.

On January 16, 2003, the Authority issued the Marine Revenue Bonds Series 2003A (AMT) and 2003B (federally taxable), with principal amounting to approximately $18 million and $17.4 million, respectively. The Authority is used the proceeds of the bonds to finance 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.

On October 20, 2003, the Authority issued the Marine Revenue Bonds Series 2003C (Non-AMT), with an authorized principal amount not to exceed approximately $10.8 million. The Authority used the proceeds of the bonds to finance the completion of several projects to include rehabilitation and construction of berthing piers for cruise and seagoing vessels at Crown Bay in St. Thomas, and the construction at Red Hook, Enighed Pond, Gallows Bay Dock, and dredging of the Charlotte Amalie Harbor.

6. Bonds Payable (continued)

Neither the credit of the U.S. Virgin Islands nor that of its political subdivisions is pledged or available for the payment of principal or interest on the Bonds.

The bonds indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance and other costs specified in the corresponding bond indentures. Management believes that the Authority has established the aforementioned required accounts and has complied with the contribution requirements with respect to the bonds. In addition, it is management's opinion that the Authority has complied with limitations and restrictions imposed by the bonds indentures.

The bonds indentures also specify certain debt service coverage requirements determined from Net Available Revenues (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 generate enough revenues to pay all operation and maintenance expenses, exclusive of depreciation and certain non-cash charges, of the respective facilities plus (a) at least 125% of the principal and interest, and redemption account sinking fund deposit requirements of each of the bonds becoming due during such year, (b) the amount of the debt service reserve fund deposit requirement for such period, (c) the deposit required to the Renewal and Replacement Fund, and (d) the amount of the capital improvements appropriation for such period.

The Authority did not comply with the requirement to issue the audited financial statements within 150 days after year-end. However, as per the Authority's bond indenture, this noncompliance event does not constitute an event of default until the Trustree sends a notification of failure and such failure continues for 90 days. As of the date of this report, the Authority has not received a notification of failure from the Trustee.

7. User Agreements and Leases

The Authority has entered into long-term user agreements and leases with several air carriers for use of the Airport System facilities. Under the terms of the user agreements and leases, the air carriers have agreed to pay airfield landing fees in CEKA and HERA, and terminal, concourse, hangar, cargo, and maintenance facility rentals and certain miscellaneous charges in consideration for use of the CEKA facilities. The user agreements and leases also require the Authority to make certain capital improvements and to provide maintenance of certain airport facilities. There are no such long-term use agreements covering the HERA terminal.

7. User Agreements and Leases (continued)

The Authority is required under the agreements with the airlines to estimate its maintenance and operation costs and revenues for the next fiscal year and to furnish such estimate to the airlines. In the event that the actual maintenance and operation costs for the year are greater than the amount estimated for that period, the deficit has to be added to the estimate of such costs to be incurred in the succeeding year, and if the actual maintenance and operation costs for the year are less than the amount estimated, the surplus amount has to be deducted from the estimate to be incurred in the succeeding year.

The user rates are revised annually and are determined in consultation with the Authority's independent rate consultants. Effective October 1, 2005, the Authority adjusted its rate after the HERA bonds were paid off. The Authority ceased the signatory and non-signatory differentiation in rate and instituted one user fee for all carriers at $2.50 per 1,000 pounds.

8. Contributions to/from the Government of the U.S. Virgin Islands

In June 2002, the Authority contributed $4 million to the Government of the U.S. Virgin Islands. The Authority agreed to make such contribution to receive in return $18.5 million from the Virgin Islands Public Finance Authority, another component unit of the Government of the U.S. Virgin Islands, in future years. The funds to be received will be used in the development of two capital projects of the marine division. The Authority will receive the funds on a reimbursement basis as allowable costs are incurred. In order to be entitled to receive such funds, the projects must meet the requirements of the federal agencies and the Authority is obligated to spend the grant moneys in accordance with the regulatory restrictions. During 2007, the Authority received approximately $2.5 million from the Virgin Island Public Finance Authority to develop the capital projects. These amounts were recorded as government grants in the Statement of Revenues, Expenses and Changes in Net Assets. In 2006, no funding was received.

9. Related Party Transactions

During the fiscal years ended September 30, 2007 and 2006, another enterprise fund of the Government of the U.S. Virgin Islands charged the Authority approximately $3.7 million and $4.6 million, respectively, for utility services rendered. Charges for such services are recurring and are included in the Authority's operating expenses.

10. Pension Plan

Substantially all of the Authority's employees are covered by the Employee Retirement System of the Government of the U.S. Virgin Islands (the System), a cost-sharing multiple-employer defined benefit pension plan. The System is a public employee retirement plan sponsored by the Government of the U.S. Virgin Islands that was created by Act No. 479, approved on June 24, 1959. The System became operative on October 1, 1959, at which date contributions by employees and the Government commenced. Substantially all full-time employees of the Government and its related agencies are covered by the System.

The System provides for retirement, death and disability benefits for employees and their dependents. The administrator of the System is responsible for its proper operation, subject to orders, resolutions and directives of a Board of Trustees. The governor of the U.S. Virgin Islands, with the approval of the Legislature, could change the required contributions from the employers and employees. Although the Government has not expressed any intent to terminate the Plan, it may do so at any time. In the event of termination of the Plan, the rights of all affected participants and beneficiaries to whom benefits have accrued under the Plan shall be non-forfeitable to the extent funded.

Government and members contributions are set by statute. The Government's required contribution is 14.5% and required member contributions are 8% of the annual salary for regular employees, 9% for senators and 10% for certain employees covered by Act 5226. The Government's contributions, together with the members' contributions and the income of the System should theoretically be sufficient to provide adequate actuarially determined reserves to cover the payment of the annuities and benefits provided by the System. The latest actuarial valuation as of September 30, 2001, indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the cost of the System on an actuarial reserve, as required by law. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained from the System's Administrator. The Authority's contributions for the years ended September 30, 2007, 2006, and 2005, were approximately $1.4 million in 2007 and 2006, and $1.5 million in 2005, which represented the Authority's required contribution.

11. Risk Management

The Authority is exposed to various risks of losses, including torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority obtains coverage, among others, for up to a maximum of $1 million for each general liability claim, and $45 million for each property liability claim. The property liability policy imposes several deductibles not exceeding $250,000 under any event. The Authority is also covered by terrorism property and liability policies with coverage of $45 million.

Claims expenditures and liabilities are recorded when it is probable that a loss has occurred in excess of insured amounts and the amount of that loss can be reasonably estimated. The Authority did not suffer any significant losses during fiscal year 2007 and 2006.

12. Contingencies

In connection with federal and state governments grant programs, the Authority is obligated to administer and spend the grant monies in accordance with regulatory restrictions, and is subject to audit by the grantor agencies. In cases of non-compliance, the agencies involved may require the Authority to refund program monies. In the 2005 federal awards audit, the Authority was in non-compliance with certain requirements regarding Real Property Acquisition Relocation Assistance that are applicable to its airport improvement program (real property acquisitions at Yellow Cedar, St. Croix, Virgin Islands). Management believes these non-compliance instances should not materially affect the Authority's financial position.

The Federal Aviation Administration (FAA) conducted an onsite wildlife evaluation of the landfill, airport and surrounding area of the Anguilla Landfill at St. Croix. The landfill, that is adjacent to St. Croix airport (Henry E. Rohlsen), caused environmental and navigational problems to the airport. The landfill attracts flocks of birds and there have been plane crashes elsewhere when birds have flown into jet engines. The FAA is threatening to force the Authority, to repay $9.3 million in grants previously awarded and to refuse further grants for the airport unless the Authority and the USVI Government show rapid progress toward closing the landfill.

12. Contingencies (continued)

The landfill is under the jurisdiction of another agency of the Government. Thus, the Government and the Authority proposed a remediation plan to operate the landfill and close it by December 2009. FAA accepted the plan, if such measures are implemented. The Authority's management believes that the plan is being implemented and complied with as agreed with the FAA. Under the remediation plan, the Authority is responsible for the maintenance of the surrounding areas to reduce the risk that flocks of birds cause a plane crash and repossess adjacent miscellaneous properties.

During the normal course of business, the Authority is a defendant in various lawsuits. In the opinion of management and legal counsel, the outcome of these cases and resulting liability, if any, is either adequately covered by insurance or should not materially affect the Authority's financial position.

13. Lease Agreements

The Authority leases several properties within its Aviation and Marine Divisions to outside users under the terms of numerous lease agreements. Leased facilities within the Aviation Division include warehouse areas at the airports, counter space within the terminals, and retail space for terminal concessionaires. The Marine Division leases warehouse, commercial and office space within the Crown Bay pier area to outside users as well.

The lease agreements at September 30, 2007 and 2006, include contracts with non-cancelable terms for both fixed and variable rental charges. The agreements expire at various dates through 2012. During fiscal year 2007 and 2006, the Authority generated revenues of approximately $8.5 million and $7.3 million, respectively, through the leasing arrangements. Future estimated minimum fixed rentals under non-cancelable lease agreements follow:

(In thousands of dollars)

Year Ending Sepetmber 30,	Amount
2008	$ 9,506
2009	9,791
2010	10,085
2011	10,387
2012	10,699
	$ 50,469

14. Credit Concentration

The Authority's revenues are dependent on a small group of air-carriers and shipping lines. Its revenues are particularly affected by demand fluctuations affecting the tourism industry, in particular tourism from the east coast of the United States.

In fiscal years 2007 and 2006, the following customers provided more than 10% of the Aviation and Marine Divisions' total operating revenues as follow:

	Division	2007	2006
American Airlines	Aviation	17.5%	18.2%
Executive Airlines (American Eagle)	Aviation	17.2%	16.0%
Royal Caribbean	Marine	14.4%	14.8%
Carnival Cruise Line	Marine	13.4%	14.4%
Princess Cruises	Marine	14.2%	7.2%

15. Recent Accounting Developments

Pollution Remediation Obligations

In November 2006, the GASB recently issued Statement No. 49, *Pollution Remediation Obligations*. The Statement identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. According to the Statement, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem,
- A government has violated a pollution prevention-related permit or license,
- A regulator has identified (or evidence indicates a regulator will do so) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up,
- A government is named in a lawsuit (or evidence indicates that it will be) to compel it to address the pollution,
- A government begins to clean up pollution or conducts related remediation activities (or the government legally obligates itself to do so).

15. Recent Accounting Developments (continued)

Pollution Remediation Obligations (continued)

Liabilities and expenses would be estimated using an "expected cash flows" measurement technique, which will be employed for the first time by governments. Statement 49 also would require governments to disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements.

Statement 49 will be effective for financial statements for periods beginning after December 15, 2007. The Authority does not expect the adoption of this statement to have a significant impact on its financial statements.

Pension Disclosures

In May 2007, the GASB recently issued Statement No. 50, *Pension Disclosures*, which more closely aligns current pension disclosure requirements for governments with those that governments are beginning to implement for retiree health insurance and other post-employment benefits.

Specifically, Statement 50 amends GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, by requiring:

- Disclosure in the notes to the financial statements of pension plans and certain employer governments of the current funded status of the plan—in other words, the degree to which the actuarial accrued liabilities for benefits are covered by assets that have been set aside to pay the benefits—as of the most recent actuarial valuation date.
- Governments that use the aggregate actuarial cost method to disclose the funded status and present a multi-year schedule of funding progress using the entry age actuarial cost method as a surrogate; these governments previously were not required to provide this information.
- Disclosure by governments participating in multi-employer cost-sharing pension plans of how the contractually required contribution rate is determined.

The provisions of Statement 50 generally are effective for periods beginning after June 15, 2007, with early implementation encouraged. The requirements relating to governments using the aggregate actuarial cost method are effective for financial statements and required supplementary information that contains information from actuarial valuations as of June 15, 2007, or later.

15. Recent Accounting Developments (continued)

Accounting and Financial Reporting for Intangible Assets

In June 2007, the GASB recently issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, to provide guidance regarding how to identify, account for, and report intangible assets.

The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks.

Statement 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets.

Statement 51 provides additional guidance that specifically addresses the unique nature of intangible assets, including:

- Requiring that an intangible asset be recognized in the statement of net assets only if it is considered identifiable
- Establishing a specified-conditions approach to recognizing intangible assets that are internally generated (for example, patents and copyrights)
- Providing guidance on recognizing internally generated computer software
- Establishing specific guidance for the amortization of intangible assets.

The requirements Statement 51 are effective for financial statements for periods beginning after June 15, 2009. The GASB made significant changes to the transition provisions, based on constituent response to the proposed version of the standards, to make it easier for governments to implement.

15. Recent Accounting Developments (continued)

Land and Other Real Estate Held as Investments by Endowments

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

Statement 52 will be effective for financial statement periods beginning after June 15, 2008.

Accounting and Financial Reporting for Derivative Instruments

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts.

Statement 53 will be effective for financial statement periods beginning after June 15, 2009.

15. Recent Accounting Developments (continued)

Fund Balance Reporting and Governmental Fund Type Definitions

The GASB recently issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

The new standards also clarify the definitions of individual governmental fund types. It interprets certain terms within the definition of special revenue fund types, while further clarifying the debt service and capital projects fund type definitions. The final standard also specifies how economic stabilization or "rainy-day" amounts should be reported.

GASB Statement 54 is effective for financial statements for periods beginning after June 15, 2010. Governments that wish to implement earlier than that date are encouraged to do so.

Ernst & Young LLP
1000 Scotiabank Plaza
273 Ponce de León Avenue
San Juan, PR 00917-1951
Tel: 787 759 8212
Fax: 787 753 0808
www.ey.com

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

The Governing Board
Virgin Islands Port Authority

We have audited the financial statements of the Virgin Islands Port Authority (the Authority) as of and for the year ended September 30, 2007, and have issued our report thereon dated May 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Financial Statement Close Process

During our audit we noted deficiencies in the Authority's financial statement close process. Significant changes were required to the statement of cash flows in order to properly present cash receipts and payments from operating, investing, capital and related financing, and capital and non-related financing activities.

A fundamental element of a sound system of internal controls is an effective financial statement close process, including the preparation of financial statements and disclosures. The financial statement close process begins with accounting data recorded in the Authority's general ledger and culminates in the preparation of the Authority's financial statements, including identification and documentation of the relevant disclosures that are required under generally accepted accounting principles.

Although we have noted that management has improved its closing process subsequent to September 30, 2007, management should continue to improve the annual closing process, including more effective controls over the preparation of financial statements. In reviewing and developing the closing process, the Authority should ensure that it has sufficient accounting personnel to effectively perform the financial statement close process. This may include holding internal training for the preparers and first-level reviewers related to the financial statement close process.

> ***Management Response***
>
> Management concurs that the closing process for the both the 2006 and 2007 audits were not timely. The problem stemmed from (1) changes resulting from the processes done by management by the current auditors versus prior auditors. (2) Management need additional personnel to prepare audit or the task will have to be outsourced as is customary by businesses of this class. Management however is now more experienced with processes involved to prepare the Audit and 2008 should be more timely with its submissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We also noted certain additional matters that we reported to management of the Authority in a separate letter dated May 14, 2009.

The Authority's response to the finding identified in our audit is described above. We did not audit the Authority's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Governing Board, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

May 14, 2009

Other Financial Information

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Schedule of Revenues and Expenses – Aviation Division (Unaudited)

Year Ended September 30, 2007 and 2006

(In thousands of dollars)	**St. Thomas Airport**	**Special Facilities**	**St. Croix Airport**	**2007 Total**	2006 Total
Operating revenues					
Users' fees and dues	$ 9,501	$ –	$ 2,899	**$ 12,400**	$ 12,816
Rentals	3,335	362	1,528	**5,225**	4,611
Others	2,611	1	525	**3,137**	3,177
Total operating revenues	15,447	363	4,952	**20,762**	20,604
Operating expenses					
Payroll, payroll taxes and fringe benefis	3,093	–	2,315	**5,408**	5,355
Repairs and maintenance	1,037	132	608	**1,777**	1,747
Materials, supplies and other services	594	13	675	**1,282**	1,172
Insurance	1,479	–	691	**2,170**	1,684
Depreciation	4,984	1	4,310	**9,295**	9,935
Other operating expenses	2,205	–	1,080	**3,285**	3,496
General and administrative allocation	2,753	47	1,749	**4,549**	4,847
Total operating expenses	16,145	193	11,428	**27,766**	28,236
Operating (loss) income	(698)	170	(6,476)	**(7,004)**	(7,632)
Non-operating revenues(expenses):					
Passenger facilities charges	1,470	–	–	**1,470**	1,439
Interest income	169	25	7	**201**	175
Interest expense	–	–	–	**–**	(20)
Total non-operating revenues, net	1,639	25	7	**1,671**	1,594
Change in net assets before capital contributions	941	195	(6,469)	**(5,333)**	(6,038)
Federal and state government grants	5,132	–	192	**5,324**	1,296
Change in net assets	$ 6,073	$ 195	$ (6,277)	**$ (9)**	$ (4,742)

See accompanying notes to other financial information.

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Schedule of Revenues and Expenses – Marine Division (Unaudited)

Year Ended September 30, 2007 and 2006

(In thousands of dollars)	**St. Thomas**	**St. Croix**	**2007 Total**	2006 Total
Operating revenues				
Users' fees and dues	$ 12,945	$ 1,292	**$ 14,237**	$ 12,572
Wharfage dues	4,160	1,115	**5,275**	2,903
Rentals	2,910	433	**3,343**	2,698
Others	398	59	**457**	502
Total operating revenues	20,413	2,899	**23,312**	18,675
Operating expenses				
Payroll, payroll taxes and fringe benefits	3,105	1,463	**4,568**	4,182
Repairs and maintenance	395	227	**622**	402
Materials, supplies and other services	1,467	489	**1,956**	1,655
Insurance	746	604	**1,350**	1,102
Depreciation	5,983	2,215	**8,198**	7,481
Other operating expenses	1,182	101	**1,283**	1,249
General and administrative allocation	3,002	991	**3,993**	3,755
Total operating expenses	15,880	6,090	**21,970**	19,826
Operating income (loss)	4,533	(3,191)	**1,342**	(1,151)
Non-operating revenues (expenses):				
Interest income	464	–	**464**	443
Interest expense	(1,907)	–	**(1,907)**	(2,295)
Total non-operating revenues (expenses),net	(1,443)	–	**(1,443)**	(1,852)
Change in net assets before capital contributions	3,090	(3,191)	**(101)**	(3,003)
Federal and state government grants	2,608	1,036	**3,644**	1,500
Change in net assets	$ 5,698	$ (2,155)	**$ 3,543**	$ (1,503)

See accompanying notes to other financial information.

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

General and Administrative Expenses (Unaudited)

Years Ended September 30, 2007 and 2006

(In thousands of dollars)	**2007**	**2006**
Payroll, payroll taxes and fringe benefits	$ 6,149	$ 6,194
Repairs and maintenance	327	368
Material, supplies and other services	1,638	1,336
Insurance	187	169
Depreciation	208	221
Other operating expenses	33	314
	8,542	8,602
Allocated as follows:		
Aviation	$ 4,549	$ 4,847
Marine	3,993	3,755
	$ 8,542	$ 8,602

See accompanying notes to other financial information.

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Schedule of Net Available Revenues for the Marine Division (Unaudited)

Years Ended September 30, 2007 and 2006

(In thousands of dollars)	**2007**	2006
Revenues		
Operating revenues:		
Users' fees and dues	**$ 19,512**	$ 15,475
Rentals	**3,343**	2,698
Others	**457**	502
Interest income	**464**	443
Total revenues	**23,776**	19,118
Expenses		
Operating expenses:		
Payroll, payroll taxes and fringe benefits	**4,568**	4,182
Repairs and maintenance	**622**	402
Materials, supplies and other services	**1,956**	1,655
Insurance	**1,350**	1,102
Other operating expenses	**1,283**	1,249
General and administrative allocation	**3,993**	3,755
Total expenses	**13,772**	12,345
Net available revenue	**$ 10,004**	$ 6,773

See accompanying notes to other financial information.

Notes to Other Financial Information (Unaudited)

September 30, 2007 and 2006

1. Description of Schedules

The Schedules of Revenues and Expenses present the revenues and expenses of the Aviation Division and the Marine Division, respectively.

The Schedules of Net Available Revenues, as defined in the Bonds' Indentures, excludes all depreciation and certain non-cash charges. This schedule also excludes PFC revenue and government grants, which are not available for payment of debt service because they are restricted for the construction of certain capital projects approved by the federal and local governments.

2. General and Administrative Expenses

For purposes of this presentation and consistent with the Authority's financial practices, an allocation of general and administrative expenses is made to each of the divisions. Such expenses include depreciation and maintenance related to administrative divisions. These allocations are calculated on the basis of other operating expenses, excluding depreciation.

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

OMB Circular A-133 Report on Federal Financial Assistance Programs

Virgin Islands Port Authority
(a component unit of the Government of the U.S. Virgin Islands)
Year Ended September 30, 2007

Ernst & Young LLP

Ernst & Young

Virgin Islands Port Authority

OMB Circular A-133 Section
Federal Financial Assistance Programs

Year Ended September 30, 2007

Contents

Ernst & Young LLP
1000 Scotiabank Plaza
273 Ponce de León Avenue
San Juan, PR 00917-1951

Tel: 787 759 8212
Fax: 787 753 0808
www.ey.com

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and on the Schedule of Expenditures of Federal Awards

To the Governing Board
Virgin Islands Port Authority

Compliance

We have audited the compliance of the Virgin Islands Port Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended September 30, 2007. The Authority's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Authority'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. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs as items 07-02 and 07-04 through 07-07.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining the effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal controls over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider items 07-02 through 07-07 to be significant deficiencies.

A *material weakness* is significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirements of a Federal program will not be prevented or detected by the entity's internal controls. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs we consider items 07-04, 07-05, and 07-07 to be material weaknesses.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended September 30, 2007, and have issued a report thereon dated May 14, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audit of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the audit committee, others within the entity and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

June 22, 2012, except for
schedule of expenditures
of federal awards as to
which the date is
May 14, 2009

Virgin Islands Port Authority

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2007

Federal Grantor **Federal Administrator** **Project Location**	**Program Title**	**Type of Grant**	**CFDA Number**	**ID Number**	**Federal Expenditures**
Department of Justice					
St. Thomas and St. Croix Port Facilities	Urban Areas Security Initiative	Direct	16.011	2003-EU-T3-0056	**$ 583,619**
Department of Transportation					
Federal Aviation Administration					
Henry E. Rohlsen Airport	Airport Improvement Program	Direct	20.106	3-78-0002-26-2004	1,000
Cyril E. King Airport	Airport Improvement Program	Direct	20.106	3-78-0001-24-2005	5,132,565
Total Federal Aviation Administration					**5,133,565**
Federal Highways Administration					
Red Hook Ferry Terminal	Highway Planning and Construction	Direct	20.205	N/A	**2,500,000**
Total Department of Transportation					**7,633,565**
Department of Homeland Security					
Transportation Security Administration/FEMA					
St. Thomas and St. Croix Port Facilities	Port Security Grant Program	Direct	97.056	HSTS04-04-G-GPS528	**44,512**
Total Federal Financial Assistance					**$ 8,261,696**

See notes to the Schedule of Expenditures of Federal Awards.

1202-1332674

Virgin Islands Port Authority

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2007

1. General

The accompanying schedules presents the funds expended by the Virgin Islands Port Authority (the "Authority") from all federal financial assistance programs. The Authority's reporting entity is defined in Note 1 to its basic financial statements.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented in the accrual basis of accounting.

3. Other Project Expenditures

The Government of the U.S. Virgin Islands ("USVI") issued through its Public Finance Authority ("PFA") $26 million of Federal Highway Reimbursement Anticipation Loan Note Bonds ("Bonds") mainly for the construction of two marine access projects: a commercial port with a pier at Enighed Pond on the island of St. John, and a full service ferry and marine terminal at Red Hook (the "Projects"). During fiscal year 2003, the U.S. Department of Transportation through the Federal Highway Administration ("FHWA") authorized the U.S. Virgin Islands Department of Public Works ("DPW") to advance the construction of the Projects. The Bonds are secured by the Highway Planning and Construction Federal Aid Program (CFDA #20.205), excluding bond related costs. In connection with these projects FHWA, PFA, DPW and the Authority developed a memorandum of agreement to establish the procedures, roles and responsibilities for managing the stewardship and construction of the Projects. In accordance with the memorandum of agreement, the Authority is responsible for the construction of the Projects, including design, bidding and awards, project coordination, management, supervision and execution. Also, the Authority is responsible for certifying eligibility for payment of contractor's invoices. As discussed in Note 8 to the Authority's basic financial statements, the Projects' expenditures are recognized as a capital asset and grant income in the Authority's financial statements.

During the fiscal year ended September 30, 2007, the Authority did not receive PFA Bonds proceeds to make capital expenditures for these projects. As of September 30, 2007, total PFA Bonds proceeds used for these projects and disbursed to date amounted to approximately $13,000,000.

4. Urban Areas Security Initiative (UASI)

Expenditures under the UASI program in the current period are reported using the CFDA number corresponding to the period in which the funds were awarded, as required by OMB Circular A-133's Compliance Supplement.

Virgin Islands Port Authority

Schedule of Findings and Questioned Costs

September 30, 2007

Part I – Summary of Auditors' Results

Financial Statement Section

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

Internal Control over Financial Reporting

Material weaknesses identified?.. No

Significant deficiencies identified that are not considered to be material weaknesses?..Yes

Non-compliance material to financial statements noted?...No

Federal Award Section

Internal control over major programs:

Material weaknesses identified?.. Yes

Significant deficiencies identified that are not consider to be material weaknesses?........Yes

Identification of Major Programs

CFDA Number	Major Program
16.011	Urban Areas Security Initiative
20.106	Airport Improvement Program
97.056	Port Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: …………………………………………………….$300,000

Auditee qualified as low-risk auditee: ……………………………………………………No

Part I – Summary of Auditors' Results (continued)

Identification of Major Programs (continued)

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

CFDA Number	Major Program	Type of Report Issued on Compliance
16.011	Urban Areas Security Initiative	Unqualified
20.106	Airport Improvement Program	Unqualified
97.056	Port Security Grant Program	Unqualified

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

Part II - Findings Related to the Financial Statements Which Are Required to be Reported in Accordance With Generally Accepted Auditing Standards

Finding Number: 07-01

Refer to separately issued 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* dated December 14, 2009.

Part III – Federal Award Findings and Questioned Costs Section

Finding Number: 07-02

Federal program information
U.S. Department of Justice/Urban Areas Security Initiative/CFDA No. 16.011
U.S. Department of Homeland Security/Port Security Grant Program/CFDA No. 97.056
U.S. Department of Transportation/Airport Improvement Program/CFDA No. 20.106

Criteria or specific requirement
General: OMB Circular A-133, Subpart C, Section 320a establishes that the audit shall be completed and the data collection form and reporting package shall be submitted to the Federal Audit Clearinghouse (FAC) within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Condition found
The Authority did not comply with the required submission date of the data collection form and reporting package to the FAC for the fiscal year ended September 30, 2007. The due date for this report was no later than June 30, 2008.

Questioned costs
Not applicable.

Effect
The Authority could be exposed to a reduction or elimination of funding by the Federal awarding agencies.

Cause
The Authority did not have controls in place to ensure that the reporting package is submitted to the FAC within the required timeframe.

Recommendation
We recommend that the Authority establish controls to ensure the reporting package is submitted to the FAC annually within the required timeframe.

Part III – Federal Award Findings and Questioned Costs Section (continued)

Finding Number: 07-02 (continued)

Views of responsible officials and planned corrective actions
The Authority agrees. Management is aware of this reporting requirement and has engaged independent auditors to complete the past due reports.

Responsible official for corrective action: Judith V. James

Anticipated completion date: 30 days upon receipt

Part III – Federal Award Findings and Questioned Costs Section (continued)

Finding Number: 07-03

Federal program information
U.S. Department of Justice/Urban Areas Security Initiative/CFDA No. 16.011
U.S. Department of Homeland Security/Port Security Grant Program/CFDA No. 97.056
U.S. Department of Transportation/Airport Improvement Program/CFDA No. 20.106

Criteria or specific requirement
General: Pursuant to §__.310 (b) of OMB Circular A-133 related to the financial statements, the auditee shall also prepare a schedule of expenditures of federal awards (SEFA) for the period covered by the auditee's financial statements.

Condition found
The Authority did not provide timely a complete and accurate compilation of the SEFA, including disclosures for the period covered by the auditee's financial statements. Subsequently, the Authority provided all the necessary schedules to complete the SEFA and disclosures.

Questioned costs
Not applicable.

Effect
The lack of appropriate procedures to ensure a complete compilation of the SEFA may cause material omissions of certain grant expenditures and also may cause delays in the audit process thus affecting future grant awards.

Cause
The Authority does not have procedures in place to ensure a complete compilation of the SEFA is performed in accordance with §__.310 (b) of OMB Circular A-133.

Recommendation
We recommend the Authority establishes a process to ensure the SEFA and related disclosures are prepared annually and establishes review procedures to ensure the SEFA contains all required information in accordance with §__.310 (b) of OMB Circular A-133.

Part III – Federal Award Findings and Questioned Costs Section (continued)

Finding Number: 07-03 (continued)

Views of responsible officials and planned corrective actions
Prior to fiscal year 2006, the SEFA was prepared by the external auditors from data compiled by the Authority. The Authority changed auditors in fiscal year 2006 and was unaware of its responsibility to prepare the SEFA each year. The Authority has compiled and prepared the SEFA from 2005 to the current audit period in accordance to with OMB Circular A-133.

Responsible official for corrective action: Anna M. Penn

Anticipated completion date: Close of each fiscal year. Next due date September 2012.

Part III – Federal Award Findings and Questioned Costs Section (continued)

Finding Number: 07-04

Federal program information
U.S. Department of Transportation/ Airport Improvement Program/CFDA No. 20.106
Federal Award No.: 3-78-0001-24-2005 & 3-78-0002-26-2004

Criteria or specific requirement
Reporting: Pursuant the terms and conditions of accepting AIP grants, under the airport sponsor's assurance no. 26(d), in a format and time prescribed by the Secretary, provide to the Secretary and make available to the public following each of its fiscal years, an annual report listing in detail:

(I) All amounts paid by the airport to any other unit of government and the purposes for which each such payment was made; and
(II) All services and property provided by the airport to other units of government and the amount of compensation received for provision of each service and property.

FAA Form 5100-126, *Financial Government Payment Report (OMB No. 2120-0557)* captures amounts paid and services provided to other units of government. This reporting requirement technically applies to all sponsors of federally assisted airports who accepted grants with assurance no. 26(d)(I)(ii); however, FAA is currently requiring submission only from commercial service airports. Commercial service airports are the airports most likely to generate excess revenue that could be diverted to non-airport uses.

Condition found
During our testing to verify that the annual Financial Government Payment Reports submitted to the FAA are complete and accurate, we noted that the report for the Cyril E. King Airport does not include the value of office space rental income from the Government of the US Virgin Islands.

Context
The value of this rental income is approximately $436,500.

Questioned costs
Not applicable

Part III – Federal Award Findings and Questioned Costs Section (continued)

Finding Number: 07-04 (continued)

Effect
Ineffective internal controls to ensure that the annual Financial Government Payment Reports are reviewed prior to submission may lead to inaccurate and incomplete reporting.

Cause
Internal controls to ensure Financial Government Payment Reports includes all transactions with other Government units are not working effectively.

Recommendation
We recommend the Authority ensures controls over the accuracy of reports submitted to the FAA are being enforced to ensure compliance with post-award reporting requirements.

Views of responsible officials and planned corrective actions
When the Authority is audited the documents requested are normally submitted to Auditors, in this case the requested documents were prepared and through audits disappeared from the files. The answer to this is the same as above because both forms are kept together. The evidence in the file shows the Authority in the past and the future from 2007 prepared the requested annual report and filed it timely. The Authority's files also contain the final report for proper closing of the grants. Moving forward the Authority will create a PDF file of all reports filed for safekeeping.

Responsible official for corrective action: Anna M. Penn

Anticipated completion date: September 2012

Part III – Federal Award Findings and Questioned Costs Section (continued)

Finding Number: 07-05

Federal program information
U.S. Department of Justice/Urban Areas Security Initiative/CFDA No. 16.011
U.S. Department of Homeland Security/Port Security Grant Program/CFDA No. 97.056
U.S. Department of Transportation/Airport Improvement Program/CFDA No. 20.106

Criteria or specific requirement
Procurement, Suspension, and Debarment: Pursuant 49 CFR 18.35, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, *Debarment and Suspension*.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition found
During our testing of contracts to verify compliance with suspension and debarment provisions, we were unable to verify that the Authority performs the required verifications to ensure contractors under covered transactions are not suspended or debarred from participating in Federally-assisted programs. Furthermore, we did not observed any clause or conditions in the project contracts reviewed, nor certifications from the contractor asserting they are not suspended or debarred. Nevertheless, we verified through EPLS that none of the contractors were suspended or debarred from participating in federally-assisted programs.

Questioned costs
No questioned costs were determined.

Part III – Federal Award Findings and Questioned Costs Section (continued)

Finding Number: 07-05 (continued)

Context
All 4 contracts of covered transactions selected for testing. Total population of contracts for covered transactions is 9 for all major programs (4 pertaining to CFDA 20.106 and 5 pertaining to both CFDA 16.011 and 97.056).

Effect
The Authority could be entering into contracts with suspended or debarred contractors which may lead to disallowance of Federal funds.

Cause
Lack of monitoring activities or control activities that ensure verification with EPLS is performed.

Recommendation
We recommend the Authority to review current procedures to ensure compliance with suspension and debarment provisions by verifying the EPLS prior to conferring a contract and including a clause or condition in project contracts, or obtaining a certification from the vendor.

Views of responsible officials and planned corrective actions
The Authority will adjust its policy to include the verification of contractors for suspension and debarment to ensure it does not jeopardize its Federal Funding source.

Responsible official for corrective action: Dale Gregory

Anticipated completion date: Fiscal year 2012

Part III – Federal Award Findings and Questioned Costs Section (continued)

Finding Number: 07-06

Federal program information
U.S. Department of Homeland Security/ Port Security Grant Program/ CFDA No. 97.056
Federal Award No.: HSTS04-04-G-GPS528

Criteria or specific requirement
Reporting: Pursuant 49 CFR 18.41(b)(1), Grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all nonconstruction grants and for construction grants when required in accordance with Sec. 18.41(e)(2)(iii). Furthermore, in accordance with 49 CFR 18.41(b)(3) the Federal agency may prescribe the frequency of the report for each project or program. However, the report will not be required more frequently than quarterly. If the Federal agency does not specify the frequency of the report, it will be submitted annually. A final report will be required upon expiration or termination of grant support.

Condition found
Financial status report (SF-269A) for the fiscal year ended September 30, 2007 was not available to enable the Auditor to test that the report was complete and accurate.

Questioned costs
No questioned costs were determined.

Context
The population of financial status reports would have been at least one annual report.

Effect
Reports may have not been filed and, may contain inaccurate allowable project expenses information. Furthermore, not keeping evidence of reports may lead to disallowance of funds.

Cause
Lack of adequate record keeping safeguards and evidence of submission of these reports.

Part III – Federal Award Findings and Questioned Costs Section (continued)

Finding Number: 07-06 (continued)

Recommendation
We recommend the Authority revises their document retention and safeguard policies to ensure an efficient document filing system is in place.

Views of responsible officials and planned corrective actions
The Authority does not agree with the condition found by the Auditor. The grant clearly states in section "M" Reporting Requirements, its requirements that only one final SF 269A is required. The grant report filing is electronic and requires only a final SF 269A.

Auditor's conclusion
The grant agreement in section "M", specifies when the final SF-269A is due, but is silent on the frequency of such report for periods before project completion. Therefore, as stated on the criteria above, if the Federal agency does not specify the frequency of the report, it will be submitted annually. In conclusion, the finding remains as stated.

Part III – Federal Award Findings and Questioned Costs Section (continued)

Finding Number: 07-07

Federal program information
US Department of Justice – Urban Areas Security Initiative – CFDA No.16.011

Criteria or specific requirement
Equipment and Real Property Management: Pursuant to A-102 Common Rule (§___.32), a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

Condition found
The Authority did not provide us with records certifying the performance of a physical inventory of property within the past two years (fiscal years 2006 and 2007).

Questioned costs
Not applicable

Context
Equipment purchased for this program during the audit period amounted to approximately $10,000.

Effect
Non-performance of physical inventory observation with the required frequency may lead to not preventing or detecting misappropriation of assets purchased with Federal funds.

Cause
It appears that the Authority has not adequately maintained adequate inventory internal controls to comply with Federal requirements.

Recommendation
The Authority should ensure that policies and procedures are enforced in order to perform physical inventory observations of equipment purchased with Federal funds at least every two years.

Part III – Federal Award Findings and Questioned Costs Section (continued)

Finding Number: 07-07 (continued)

Views of responsible officials and planned corrective action plan
Starting fiscal year 2010, management has ensured that physical inventories are conducted at least every two years to ensure compliance with federal regulations

Responsible official for corrective action plan: Accounting manager

Completion date: Fiscal year 2010

Virgin Islands Port Authority

Summary Schedule of Prior Audit Findings

September 30, 2007

Finding Number: 06-02

CFDA Number	All major programs
Name of Federal Program	All major programs
Major Program	All major programs
Type of Compliance Requirement	Other
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Not corrected. Refer to current year finding 07-02.

Finding Number: 06-03

CFDA Number	All major programs
Name of Federal Program	All major programs
Major Program	All major programs
Type of Compliance Requirement	Other
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Not corrected. Refer to current year finding 07-03.

Finding Number: 06-04

CFDA Number	20.106
Name of Federal Program	Airport Improvement Program
Major Program	Yes
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	No questioned costs were determined.
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Corrected

Finding Number: 06-05

CFDA Number	20.106
Name of Federal Program	Airport Improvement Program
Major Program	Yes
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	No questioned costs were determined.
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Corrected

Finding Number: 06-06

CFDA Number	20.106
Name of Federal Program	Airport Improvement Program
Major Program	Yes
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	No questioned costs were determined.
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Not corrected. Refer to current year finding 07-04.

Finding Number: 06-07

CFDA Number	16.011, 20.106, 97.056
Name of Federal Program	Urban Areas Security Initiative, Airport Improvement Program, Post Security Grant Program
Major Program	Yes
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	No questioned costs were determined.
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Not corrected. Refer to current year finding 07-05.

Finding Number: 06-08

CFDA Number	97.056
Name of Federal Program	Port Security Grant Program
Major Program	Yes
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	No questioned costs were determined.
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Corrected

Finding Number: 06-09

CFDA Number	97.056
Name of Federal Program	Port Security Grant Program
Major Program	Yes
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	No questioned costs were determined.
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Not corrected. Refer to current year finding 07-06.

Finding Number: 2005-01

CFDA Number	20.106
Name of Federal Program	Airport Improvement Program
Major Program	Yes
Type of Compliance Requirement	Real Property Acquisition and Relocation Assistance
Amount of Questioned Costs	No questioned costs were determined.
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Corrected

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.