FINANCIAL STATEMENTS, OTHER FINANCIAL INFORMATION AND OTHER REPORT

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)
Years Ended September 30, 2009 and 2008
With Report of Independent Auditors

ERNST & YOUNG

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

Financial Statements, Other Financial Information and Other Report

Years Ended September 30, 2009 and 2008

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, 2009 and 2008, 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, 2009 and 2008, 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.

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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

March 16, 2011

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 readers understand the basic financial statements of the Authority for the years ended September 30, 2009 and 2008, with selected comparative information for the year ended September 30, 2007. 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 2009 and 2008 are $36.4 million and $46.3 million, respectively. The fluctuation in operating revenues when compared to fiscal year 2008 is a decrease of $10 million or 22% in operating revenues. The aviation division received approximately 4% less revenues in 2009 than 2008. The 2009 marine revenues also decreased by approximately 36% when compared to 2008.

Fiscal year 2009 was a challenge for the Virgin Islands Port Authority as it was for all Air and Seaports across the world due to the economic recession. Although passenger counts declined at both Cyril E. King and Henry E. Rohlsen Airport the decline was much better than the anticipated decline based on national averages. The Virgin Islands Port Authority Aviation revenues declined $0.923 million when compared to fiscal year 2008. The global economic recession accompanied by high unemployment levels reduced the demand for air travel in fiscal year 2009. The Virgin Islands falls into the category of a leisure destination. Because Aviation revenue is driven by passenger traffic all areas related to operations resulted in a decline of revenues. Increases in the Aviation revenue was $0.176 million from rental revenues from both aviation and non-aeronautical leases. The Marine revenue took a sharper decline of 36%, which resulted from approximately 25% write-off of custom dues receivable. Like Aviation all revenues related to passenger activity were also reduced when compared to fiscal year 2008. Increase in marine revenues resulted from rentals due to leasehold agreements.

In 2008, the increase in aviation revenue was more significant in rental income. In 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.

In fiscal year 2008, 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 following table details the components of and changes in operating revenues:

	2009	2008	2007	Change 2009	Change 2008
(In thousands of dollars)					
Aviation operating revenues:					
Users' fees and dues	**$ 11,687**	$ 12,602	$ 12,400	$ (915)	$ 202
Rentals	**5,734**	5,558	5,225	176	333
Others	**3,154**	3,338	3,137	(184)	201
Total Aviation operating revenues	**20,575**	21,498	20,762	(923)	736
Marine operating revenues:					
Users' fees and dues	**9,978**	14,214	14,237	(4,236)	(23)
Wharfage dues	**223**	5,136	5,275	(4,913)	(139)
Rentals	**4,907**	4,423	3,343	484	1,080
Others	**729**	988	457	(259)	531
Total Marine operating revenues	**15,837**	24,761	23,312	(8,924)	1,449
Total operating revenues	**$ 36,412**	$ 46,259	$ 44,074	$ (9,847)	$ 2,185

Wharfage and Tonnage

The U. S. Virgin Islands is defined as a territory of the United States and as such is authorized by Congress to set its own custom duties. The revenue generated from custom duties is intended to assist the Government of the Virgin Islands operations. Through a Memorandum of Agreement (MOA) signed in 1994 by the Government of the Virgin Islands (GVI) and Customs (now Custom Border and Protection "CBP"), the latter was "authorized" to collect the USVI custom duties and the wharfage and tonnages port user fees of the Virgin Islands Port Authority (VIPA). The MOA required CBP to pay the revenue to the USVI treasury, less CBP's cost of collecting both the custom duties and wharfage and tonnage user fees of the VIPA, at which point the GVI charges a 5% administrative fee for processing a check to the VIPA.

The Virgin Islands Port Authority assesses fees through its tariff to users for use of its wharfs and for tonnage based on cargo capacity. The absolute reason for the Authority's charging such fees is to enable it to maintain the various marine facilities for expenses such as dredging, repairs and maintenance and replacement as needed.

Over time the CBP's cost for collecting have exceeded the amount of both the custom duties and port user fees collected. CBP's costs charged to the USVI have doubled from an average of $7.2 million per year for fiscal years 1998-2003 to an average of $14.3 million per year for fiscal years 2004-2009. This has directly impacted the amounts available to remit to the GVI and the VIPA.

At the close of FY 2009 VIPA has $6,483,411 due from CBP. Currently, that amount is in dispute and accordingly VIPA has chosen to write off the receivable for the period February 2008 through September 2009. The write-off exacerbates VIPA's loss to $16 million at the close of FY 2009.

Additionally, the VIPA ability to meet the required debt coverage in accordance with the 2003 Marine Bond indenture which defines coverage in section 5.02 (a) as certain debt service coverage requirements determined from Net Available Revenues (as defined) of the Authority's Marine Division was affected. The provisions of each of the bond 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. The net available revenues need to yield at least 125% of the debt service on all bonds outstanding. At the close of FY 2009 the net available revenues in the Marine Division is $4.2 million with debt coverage requirements of $4.5 million resulting in a deficit in coverage of $309 thousand.

Moving forward the GVI has removed the VIPA from the MOA. Effective March 1, 2011 the VIPA commenced collecting an equivalent tariff for the former wharfage and tonnage under the new categorization of harbor use fee and facility use fee. The VIPA will continue to pursue the outstanding receivable from CBP and will recognize the revenue when and if received.

Operating Expenses

In FY 2009 the Virgin Islands Port Authority streamlined its activity spending and achieved a decrease in operating expenses of approximately 5%; in comparison to the 13.6% increase in fiscal 2008. Payroll, taxes and fringe benefits decreased by 5%. Reduction in payroll cost resulted from reduction in employment by attrition. Additionally, increase in medical insurance paid by the employer was approximately 7%. Management Supervisors were paid arbitrated salary increases of 2%. Repairs and maintenance decreased by 6.7%. Materials, supplies other services decreased by 12%. Insurance increased by 9% due to additions to assets.

Operating expenses increased by approximately 13.6% and 3.13% in fiscal years 2008 and 2007, respectively. Payroll, taxes and fringe benefits increased by 13.62%. Changes in payroll resulted from increase in pension of 3% from 14.5% to 17.5% applicable to the employer share. Additionally, increase in medical insurance paid by the employer was approximately 7%.

Management was paid retroactively for salary increases previously cancelled in March 2003. Management also received a 10% increase in wages covering fiscal years 2004-2008; the increase was not retroactive. Repairs and maintenance increased 11.93% and resulted from repairs to the Cyril E. King Airport Runway. Utilities usage increased during fiscal year 2008 by 57%. Materials, supplies other services increased by 8.8%. Insurance decreased by 2.75% due to reduced rates.

The following table details the components of and changes in operating expenses:

	2009	2008	2007	Change 2009	Change 2008
(In thousands of dollars)					
Payroll, payroll taxes and fringe benefits	**$ 17,323**	$ 18,322	$ 16,125	$ (999)	$ 2,197
Repairs and maintenance	**2,846**	3,050	2,725	(204)	325
Materials, supplies and other services	**4,799**	5,458	5,017	(659)	441
Insurance	**3,926**	3,605	3,707	321	(102)
Depreciation	**18,793**	18,806	17,701	(13)	1,105
Other operating expenses	**5,599**	7,142	4,373	(1,543)	2,769
Total operating expenses	**$ 53,286**	$ 56,383	$ 49,648	$ (3,097)	$ 6,735

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 approximately $1.5 million of PFC revenues in each of the fiscal years 2009 and 2008.

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 2009 and 2008, federal grants amounted to $4.2 million and $6.7 million, respectively. Federal funds received from FAA were used to rehabilitate the Henry E. Rohlsen Airport taxi lane; total received in 2009 - $6.5 million. Additionally, $2.4 million was used towards the build out of the Red Hook terminal and dock facility; $1.1 million towards the construction of Enighted Pond from Garvey Grant; $.62 million was received for the Cyril E. King Airport Security enhancement; $.58 million was received for the Airfield Rescue Fighters equipment and Pavement Management Plan; $.24 million for TSA Canine program; and $.18 million for St. Thomas Airfield Rescue & Fighters vehicle. Other federal funds received were approximately $.18 million for security officers on St. Croix and $.25

million for security officers on St. Thomas from TSA the funds were received for security work by VIPA officers who worked at security check points at HERA and CEKA respectively.

Changes in Net Assets
Total net assets, which represent the excess of assets over liabilities, for the Authority, decreased by $12.5 million in 2009 and decreased by $3.4 million in 2008. This change resulted from total operating expenditures of $53.3 million and $56.4 million, offset by revenues of $36.4 million and $46.3 million, net non-operating revenues of $0.07 million and $0.01 million and capital contributions of $4.3 million and $6.7 million in 2009 and 2008, respectively.

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, 2009, 2008, and 2007 is as follows:

(In thousands of dollars)	**2009**	**2008**	**2007**
Assets			
Current assets	**$ 35,428**	**$ 38,593**	$ 33,557
Non-current assets:			
Capital assets, net	**245,489**	**257,133**	267,328
Other non-current assets	**5,495**	**5,382**	5,394
Total assets	**286,412**	**301,108**	306,279
Liabilities and Net Assets			
Liabilities:			
Current liabilities	**11,061**	**11,365**	11,326
Non-current liabilities - bonds payable	**34,791**	**36,659**	38,441
Total liabilities	**45,852**	**48,024**	49,767
Net assets:			
Invested in capital assets, net of related debt	**208,850**	**218,715**	228,227
Restricted	**10,270**	**9,692**	8,835
Unrestricted	**21,440**	**24,677**	20,478
Total net assets	**$ 240,560**	**$ 253,084**	$ 257,540

During fiscal year 2009, the net decrease in capital assets amounting to $11.6 million was comprised of additions to capital assets amounting to $7.1 million, net of depreciation expense of $18.8 million.

During fiscal year 2008, the net decrease in capital assets amounting to $10.2 million was comprised of additions to capital assets amounting to $8.6 million, net of depreciation expense of $18.8 million.

The most significant additions were related to the following capital projects:

	2009	**2008**	**2007**
Ann A Abramson Pier (Dredging)	–	$0.07 million	$0.44 million
Acquisition of land surrounding HERA to permit the runway extention	–	_	$0.02 million
Construction of the marine terminal at Enighted Pond	**$1.1 million**	_	$0.26 million
Construction of marine terminal at Red Hook	**$.01 million**	$0.16 million	$2.06 million
Resurface Cyril E. King Taxi Lane	–	$1.65 million	$5.83 million
Dredging and improvement of marine facilities	–	$0.22 million	$1.48 million
Crown Bay Dock and retail development	**$.19 million**	_	$0.93 million
Crown Bay Dredging	**$1.4 million**	$1.00 million	–
Cyril E. King Airport -Baggage Belt	–	_	$1.1 million
HERA Taxiway "A" Connections	**$.41 million**	$3.7 million	–
Marine Cargo Terminal - Molasses (GAF)	**$.35 million**	–	–
Lindberg Bay Bathroom	**$.22 million**	–	–
Cyril E. King Chillers	**$.88 million**	–	–

Capital Financing and Debt Management

The Authority has two bond issues outstanding as of September 30, 2009. 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 2009	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, 2009 and 2008, for the Marine Revenue Bonds Series A&B is $27.4 million and $28.7 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 2009, the amount outstanding of the Marine Series C Bonds was $9.1 million.

As of September 30, 2009 and 2008, the Marine revenue bonds outstanding amounted to $36.5 million and $38.4 million, respectively, a decrease of $1.9 million compared to the balance outstanding as of September 30, 2008. The bonds outstanding as of September 30, 2009 and 2008 consisted of the Marine Revenues, series A, B and 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 2009 and 2008, the Authority complied with the debt service coverage of the Bonds.

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 $56.4 million in Entitlement funds and $46 million in Discretionary funds for Cyril E. King Airport, and $43.6 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. To date the solution remains pending.

Yellow Cedar Acquisitions
As a result 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 remain 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 years 2007 and 2008, 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."

Contacting the Authority's Financial Management

This financial report is designed to provide the Authority's customers and creditors and other interested persons with a general overview of its finances and to demonstrate the Authority's accountability for the funds it receives. If you have questions about this report, or need additional financial information, contact the Director of Administration and Finance at Administrative Building, Cyril E. King Airport, St. Thomas, VI 00803.

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	
	2009	**2008**
Assets		
Current assets:		
Cash and cash equivalents (restricted - $3,513 in 2009 and $3,093 in 2008)	**$ 24,989**	$ 21,347
Accounts receivable - net of allowance for doubtful accounts of $ 1,696 in 2009 and $1,380 in 2008	**4,085**	5,254
Short-term investments	**377**	368
Sinking funds (restricted)	**2,526**	2,588
Receivables from U.S. Government agencies	**600**	2,914
Receivables from the Government of the U.S. Virgin Islands	**–**	3,031
Prepaid insurance	**2,227**	2,435
Other current assets	**624**	656
Total current assets	**35,428**	38,593
Noncurrent assets:		
Capital assets, net	**245,489**	257,133
Sinking funds (restricted)	**4,231**	4,011
Debt issue costs	**1,264**	1,371
Total noncurrent assets	**250,984**	262,515
Total assets	**$ 286,412**	$ 301,108

(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 2009	September 30 2008
Liabilities and net assets		
Current liabilites:		
Note payable	**$ 1,474**	$ 1,482
Bonds payable, current portion	**1,848**	1,758
Accounts payable related to capital projects, including retainage on contracts	**278**	1,164
Compensated absences payable	**1,914**	1,923
Other accounts payable and accrued liabilities	**5,547**	5,038
Total current liabilities	**11,061**	11,365
Noncurrent liabilities:		
Bonds payable, net of current portion	**34,791**	36,659
Total liabilites	**45,852**	48,024
Net assets:		
Invested in capital assets, net of related debt	**208,850**	218,715
Restricted	**10,270**	9,692
Unrestricted	**21,440**	24,677
Total net assets	**$ 240,560**	$ 253,084

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	
	2009	**2008**
Operating revenues		
Aviation	**$ 20,575**	$ 21,498
Marine	**15,837**	24,761
	36,412	46,259
Operating expenses		
Payroll, payroll taxes and fringe benefits	**17,323**	18,322
Repairs and maintenance	**2,846**	3,050
Materials, supplies and other services	**4,799**	5,458
Insurance	**3,926**	3,605
Depreciation	**18,793**	18,806
Other operating expenses	**5,599**	7,142
Total operating expenses	**53,286**	56,383
Operating loss	**(16,874)**	(10,124)
Non-operating revenues (expenses)		
Passenger facilities charges	**1,486**	1,518
Interest income	**491**	449
Interest expense	**(1,909)**	(1,948)
Total non-operating revenues, net	**68**	19
Change in net assets before capital contributions	**(16,806)**	(10,105)
Federal and state government capital contributions	**4,282**	6,677
Change in net assets	**(12,524)**	(3,428)
Net assets at beginning of year	**253,084**	256,512
Net assets at end of year	**$ 240,560**	$ 253,084

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	
	2009	2008
Cash flows from operating activities		
Cash received from customers and others	**$ 40,377**	$ 45,266
Cash paid to suppliers and employees, net of capitalized expenses	**(33,420)**	(36,304)
Net cash provided by operating activities	**6,957**	8,962
Cash flows from investing activities		
Redemption in investments	**(229)**	(85)
Interest received from investments	**491**	480
Net cash provided by investing activities	**262**	395
Cash flows from capital and related financing activities		
Acquisition of capital assets	**(8,035)**	(9,898)
Proceeds from marine bond issue and note payable	**2,467**	2,423
Principal payments on bonds payable and note payable	**(4,233)**	(4,142)
Interest paid on bonds	**(1,920)**	(1,957)
Cash received from U.S. Government agencies and local government	**6,596**	8,889
Passenger facilities charges	**1,486**	1,518
Net cash used in capital and related financing activities	**(3,639)**	(3,167)
Net change in cash and cash equivalents	**3,580**	6,190
Cash and cash equivalents at beginning of year	**23,935**	17,745
Cash and cash equivalents at end of year	**$ 27,515**	$ 23,935
Cash and cash equivalents include		
Unrestricted and restriced cash and cash equivalents	**$ 24,989**	$ 21,347
Cash and cash equivalents restricted in sinking funds	**2,526**	2,588
	$ 27,515	$ 23,935

(Continued)

Statements of Cash Flows (continued)

(In thousands of dollars)

	Year Ended September 30	
	2009	**2008**
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	**$ (16,874)**	$ (10,124)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	**18,793**	18,806
Bond issuance cost amortization	**107**	92
Premium amortization	**(20)**	(25)
Provision for uncollectibles	**316**	552
Change in assets and liabilities:		
Accounts receivable	**934**	(1,010)
Receivable from the Government of the U.S. Virgin Islands	**3,031**	(593)
Prepaid insurance	**208**	37
Other assets	**(30)**	(70)
Accounts payable and other accrued liabilities	**492**	1,297
Total adjustments	**23,831**	19,086
Net cash provided by operating activities	**$ 6,957**	$ 8,962

See accompanying notes.

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:* These result when constraints, on the use of net assets, are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

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

The Authority distinguishes operating revenues and expenses from non-operating items. Operation revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for fees, dues and rent on each air and marine terminal. Operating expenses for the Authority include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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.

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

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.

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.

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

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.

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 2009 and 2008, 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.

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

Capital Assets (continued)

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

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 and 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 are 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.

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

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.

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.

Effects of New Pronouncements

In November, 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post closure care and nuclear power plant decommissioning. The Authority adopted the provisions of GASB Statement No. 49 during the year ended June 30, 2009. The adoption of GASB Statement No. 49 had no material impact on the Authority.

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

Effects of New Pronouncements (continued)

In November, 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investment 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. The Authority adopted the provisions of GASB Statement No. 52 during the year ended June 30, 2009. The adoption of GASB Statement No. 52 had no material impact on the Authority.

2. Cash and Cash Equivalents

Cash and cash equivalents, segregated by category at September 30, 2009 and 2008, are as follows (in thousands of dollars):

	2009		**2008**	
	Bank Balance	**Carrying Amount**	**Bank Balance**	**Carrying Amount**
Restricted	**$ 3,813**	**$ 3,513**	$ 3,081	$ 3,093
Unrestricted	**22,432**	**21,476**	18,876	18,254
	$ 26,245	**$ 24,989**	$ 21,957	$ 21,347

At September 30, 2009 and 2008, 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.

As of September 30, 2009, approximately $20.7 million or 83% of the Authority's deposits in banks were held at Banco Popular de Puerto Rico. All Government deposits are collateralized at Banco Popular de Puerto Rico and other financial institutions.

2. Cash and Cash Equivalents (continued)

As of September 30, 2008, approximately $19.2 million or 81.79% of the Authority's deposits in banks were held at Banco Popular de Puerto Rico. All Government deposits are collateralized at Banco Popular de Puerto Rico and other financial institutions.

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, 2009 were as follows (in thousands of dollars):

	2009		
	2003 Series A & B Marine Revenue Bonds	**2003 Series C Marine Revenue Bonds**	**Total**
Restricted:			
Debt service reserve	**$ 4,794**	**$ 848**	**$ 5,642**
Construction	**9**	**10**	**19**
Operating maintenance renewal and replacement funds	**1,095**	**1**	**1,096**
	$ 5,898	**$ 859**	**$ 6,757**

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

Investments in the reserve accounts at September 30, 2008 were as follows (in thousands of dollars):

	2008		
	2003 Series A & B Marine Revenue Bonds	2003 Series C Marine Revenue Bonds	Total
Restricted:			
Debt service reserve	$ 4,634	$ 860	$ 5,494
Construction	9	9	18
Operating maintenance renewal and replacement funds	1,086	1	1,087
	$ 5,729	$ 870	$ 6,599

Restricted investments, categorized by investment type, and weighted average maturity, for 2009 and 2008, are as follows (in thousands of dollars):

	2009		2008	
	Fair Value	Weighted Avg. Maturity (Years)	Fair Value	Weighted Avg. Maturity (Years)
Money Market funds and cash equivalents	**$ 4,708**		$ 5,409	
Portfolio investments:				
U.S. government agencies notes	**2,049**	**3.71**	1,190	3.81
Total investments	**$ 6,757**		$ 6,599	

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, 2009, 83% of the Authority's sinking funds and short-term investments were invested in HSBC Bank U.S.A. The composition of sinking funds and short-term investments are as follows: cash and cash equivalents accounts (65%), U.S. Treasury Obligations (19%), Money Market Obligations (Federated Treasury Obligations (less than 1%), BPPR time deposit account (17%), and certification of deposits (5%).

At September 30, 2008, 83% of the Authority's sinking funds and short-term investments were invested in HSBC Bank U.S.A. The composition of sinking funds and short-term investments are as follows: cash and cash equivalents accounts (61.5%), U.S. Treasury Obligations (17.3%), Money Market Obligations (Federated Treasury Obligations (less than 1%), BPPR time deposit account (16.7%), and certification of deposits (5.3%).

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, 2009, 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, 2009 comprise as follows:

(In thousands of dollars)	2008	Increase	Decrease	Transfers	2009
Capital assets not being depreciated:					
Land	$ 20,698	$ –	$ –	$ –	**$ 20,698**
Construction in progress	1,389	5,435	(67)	(4,867)	**1,890**
Total capital assets not being depreciated	22,087	5,435	(67)	(4,867)	**22,588**
Capital assets being depreciated:					
Buildings and structures	292,006	1,025	67	929	**294,027**
Runways, aprons and pavings	122,431	–	–	802	**123,233**
Equipment	18,910	689	–	1,519	**21,118**
Land and harbor improvements	37,111	–	–	1,617	**38,728**
Total capital assets being depreciated	470,458	1,714	67	4,867	**477,106**
Accumulated depreciation for:					
Buildings and structures	(123,868)	(8,792)	–	–	**(132,660)**
Runways, aprons and pavings	(83,740)	(5,552)	–	–	**(89,292)**
Equipment	(11,549)	(1,359)	–	–	**(12,908)**
Land and harbor improvements	(16,255)	(3,090)	–	–	**(19,345)**
Total accumulated depreciation	(235,412)	(18,793)	–	–	**(254,205)**
Total capital assets, net	$ 257,133	$ (11,644)	$ –	$ –	**$ 245,489**

4. Capital Assets (Continued)

Capital assets as of September 30, 2008 comprise as follows:

(In thousands of dollars)	2007	Increase	Decrease	Transfers	2008
Capital assets not being depreciated:					
Land	$ 20,698	$ –	$ –	$ –	**$ 20,698**
Construction in progress	1,040	8,032	(5)	(7,678)	**1,389**
Total capital assets not being depreciated	21,738	8,032	(5)	(7,678)	**22,087**
Capital assets being depreciated:					
Buildings and structures	291,660	19	(17)	344	**292,006**
Runways, aprons and pavings	116,454	–	–	5,977	**122,431**
Equipment	18,295	565	–	50	**18,910**
Land and harbor improvements	35,804	–	–	1,307	**37,111**
Total capital assets being depreciated	462,213	584	(17)	7,678	**470,458**
Accumulated depreciation for:					
Buildings and structures	(114,564)	(9,321)	17	–	**(123,868)**
Runways, aprons and pavings	(78,614)	(5,126)	–	–	**(83,740)**
Equipment	(10,161)	(1,388)	–	–	**(11,549)**
Land and harbor improvements	(13,284)	(2,971)	–	–	**(16,255)**
Total accumulated depreciation	(216,623)	(18,806)	17	–	**(235,412)**
Total capital assets, net	$ 267,328	$ (10,190)	$ (5)	$ –	**$ 257,133**

5. Note Payable

In 2009, the Authority borrowed approximately $2.4 million to finance certain insurance premiums. The loan bears interest at 3.49% and is payable in monthly installments over periods not exceeding 11 months. The balance outstanding as of September 30, 2009 was approximately $1.5 million.

5. Note Payable (continued)

In 2008, the Authority borrowed approximately $2.4 million to finance certain insurance premiums. The loan bears interest at 4.25% 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.

Changes in note payable for the year ended September 30, 2009 and 2008 follow (in thousands of dollars):

	2008	Increase	Decrease	2009
Insurance loan at 4.25%	$ 1,482	$ –	$ (1,482)	**$ –**
Insurance loan at 3.49%	–	2,443	(969)	**1,474**
	$ 1,482	$ 2,443	$ (2,451)	**$ 1,474**

	2007	Increase	Decrease	2008
Insurance loan at 4.25%	$ –	$ 2,470	$ (988)	**$ 1,482**
Insurance loan at 6.25%	1,514	–	(1,514)	**–**
	$ 1,514	$ 2,470	$ (2,502)	**$ 1,482**

6. Bonds Payable

At September 30, 2009 and 2008, bonds payable consist of:

(In thousands of dollars)	**2009**	2008
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%	**9,375**	10,680
2003 Marine Revenue Draw Bonds, up to $10,750 Series C; due serially, through September 1, 2023 and bearing interest of 4.40%	**9,116**	9,568
	36,496	38,253
Debt premium	**143**	164
Less current portion of long-term debt	**(1,848)**	(1,758)
	$ 34,791	$ 36,659

The aggregate debt service requirements of bonds payable at September 30, 2009 follow:

(In thousands of dollards)

Years	**Principal**	**Interest**	**Total**
2010	$ 1,848	$ 1,782	$ 3,630
2011	1,939	1,690	3,629
2012	2,036	1,594	3,630
2013	2,139	1,493	3,632
2014	2,243	1,385	3,628
2015 through 2019	13,083	5,061	18,144
2020 through 2023	13,208	1,496	14,704
Total	$ 36,496	$ 14,501	$ 50,997

6. Bonds Payable (continued)

Changes in bonds payable for the years ended September 30, 2009 and 2008, follow:

(In thousands of dollars)	2008	Increase	Decrease	2009
2003 Series A Marine Revenue Bonds	$ 18,005	$ –	$ –	**$ 18,005**
2003 Series B Marine Revenue Bonds	10,680	–	(1,305)	**9,375**
2003 Series C Marine Revenue Bonds	9,568	–	(452)	**9,116**
Premium and debt issue costs	164	–	(21)	**143**
	$ 38,417	$ –	$ (1,778)	**$ 36,639**

(In thousands of dollars)	2007	Increase	Decrease	2008
2003 Series A Marine Revenue Bonds	$ 18,005	$ –	$ –	**$ 18,005**
2003 Series B Marine Revenue Bonds	11,935	–	(1,255)	**10,680**
2003 Series C Marine Revenue Bonds	10,002	–	(434)	**9,568**
Premium and debt issue costs	187	–	(23)	**164**
	$ 40,129	$ –	$ (1,712)	**$ 38,417**

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. No funding was received from the Local Government in 2009 or 2008.

9. Related Party Transactions

During the fiscal years ended September 30, 2009 and 2008, another enterprise fund of the Government of the U.S. Virgin Islands charged the Authority approximately $5.7 million and $5.8 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 remained the same as Fiscal Year 2008 at the contribution rate of 17.5% and required member contributions remained unchanged at 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, 2009, 2008, and 2007 were approximately $1.8 million, $1.8 million, and $1.5 million, respectively, equal to 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 2009 and 2008.

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, 2009 and 2008, include contracts with non-cancelable terms for both fixed and variable rental charges. The agreements expire at various dates through 2012. During fiscal year 2009 and 2008, the Authority generated revenues of approximately $10.6 million and $9.9 million, respectively, through the leasing arrangements. Future estimated minimum fixed rentals under non-cancelable lease agreements and month-to-month follow:

(In thousands of dollars)

Year Ending September 30,	**Amount**
2010	$ 10,802
2011	11,365
2012	11,583
2013	11,807
	$ 45,557

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 2009 and 2008, the following customers provided more than 10% of the Aviation and Marine Divisions' total operating revenues as follow:

	Division	2009	2008
American Airlines	Aviation	**15.0%**	17.0%
Executive Airlines (American Eagle)	Aviation	**11.7%**	15.0%
Carnival Cruise Line	Marine	**12.5%**	14.0%
Princess Cruises	Marine	**12.2%**	12.0%
Royal Caribbean	Marine	**11.8%**	13.4%

15. Recent Accounting Developments

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific authoritative guidance that addresses these questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

15. Recent Accounting Developments (continued)

This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets.

This statement is effective for periods beginning after June 15, 2009. Early application of this Statement is encouraged. The Authority is currently evaluating the potential impact of the adoption of this statement.

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. This statement is effective for periods beginning after June 15, 2009. Earlier application is encouraged. The Authority is currently evaluating the potential impact of the adoption of this statement.

Other Financial Information

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

Schedules of Revenues and Expenses – Aviation Division (Unaudited)

Years Ended September 30, 2009 and 2008

(In thousands of dollars)

	St. Thomas Airport	Special Facilities	St. Croix Airport	2009 Total	2008 Total
Operating revenues					
Users' fees and dues	$ 9,091	–	$ 2,597	**$ 11,688**	$ 12,602
Rentals	3,429	366	1,939	**5,734**	5,558
Others	2,457	124	572	**3,153**	3,338
Total operating revenues	14,977	490	5,108	**20,575**	21,498
Operating expenses					
Payroll, payroll taxes and fringe benefis	3,625	–	2,563	**6,188**	6,235
Repairs and maintenance	955	110	614	**1,679**	2,048
Materials, supplies and other services	677	13	473	**1,163**	1,116
Insurance	1,211	–	563	**1,774**	1,752
Depreciation	5,805	–	4,579	**10,384**	10,036
Other operating expenses	2,974	11	1,478	**4,463**	4,361
General and administrative allocation	3,350	55	2,273	**5,678**	5,994
Total operating expenses	18,597	189	12,543	**31,329**	31,542
Operating (loss) income	(3,620)	301	(7,435)	**(10,754)**	(10,044)
Non-operating revenues(expenses):					
Passenger facilities charges	1,480	–	6	**1,486**	1,518
Interest income	108	30	–	**138**	169
Interest expense	(34)	–	(6)	**(40)**	–
Total non-operating revenues, net	1,554	30	–	**1,584**	1,687
Change in net assets before capital contributions	(2,066)	331	(7,435)	**(9,170)**	(8,357)
Federal and state government grants	1,677	–	2,605	**4,282**	6,677
Change in net assets	$ (389)	$ 331	$ (4,830)	**$ (4,888)**	$ (1,680)

See accompanying notes to other financial information.

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

Schedules of Revenues and Expenses – Marine Division (Unaudited)

Years Ended September 30, 2009 and 2008

(In thousands of dollars)

	St. Thomas	St. Croix	2009 Total	2008 Total
Operating revenues				
Users' fees and dues	$ 9,795	$ 183	**$ 9,978**	$ 14,214
Wharfage dues	924	(701)	**223**	5,136
Rentals	4,507	400	**4,907**	4,423
Others	690	39	**729**	988
Total operating revenues	15,916	(79)	**15,837**	24,761
Operating expenses				
Payroll, payroll taxes and fringe benefits	3,268	1,250	**4,518**	4,994
Repairs and maintenance	478	200	**678**	644
Materials, supplies and other services	1,366	533	**1,899**	2,619
Insurance	1,333	648	**1,981**	1,688
Depreciation	6,134	2,275	**8,409**	8,564
Other operating expenses	750	33	**783**	1,646
General and administrative allocation	2,584	1,105	**3,689**	4,686
Total operating expenses	15,913	6,044	**21,957**	24,841
Operating income (loss)	3	(6,123)	**(6,120)**	(80)
Non-operating revenues (expenses):			**–**	
Interest income	353	–	**353**	280
Interest expense	(1,865)	(4)	**(1,869)**	(1,948)
Total non-operating revenues (expenses),net	(1,512)	(4)	**(1,516)**	(1,668)
Change in net assets before capital contributions	(1,509)	(6,127)	**(7,636)**	(1,748)
Federal and state government grants	–	–	**–**	–
Change in net assets	$ (1,509)	$ (6,127)	**$ (7,636)**	$ (1,748)

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, 2009 and 2008

(In thousands of dollars)

	2009	2008
Payroll, payroll taxes and fringe benefits	**$ 6,617**	$ 7,093
Repairs and maintenance	**489**	358
Material, supplies and other services	**1,737**	1,723
Insurance	**171**	165
Depreciation	**257**	206
Other operating expenses	**352**	1,135
	$ 9,623	$ 10,680
Allocated as follows:		
Aviation	**$ 5,678**	$ 5,994
Marine	**3,945**	4,686
	$ 9,623	$ 10,680

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, 2009 and 2008

(In thousands of dollars)

	2009	2008
Revenues		
Operating revenues:		
Users' fees and dues	**$ 10,201**	$ 19,350
Rentals	**4,907**	4,423
Others	**729**	988
Interest income	**353**	280
Total revenues	**16,190**	25,041
Expenses		
Operating expenses:		
Payroll, payroll taxes and fringe benefits	**4,518**	4,994
Repairs and maintenance	**678**	644
Materials, supplies and other services	**1,899**	2,619
Insurance	**1,981**	1,688
Other operating expenses	**783**	1,646
General and administrative allocation	**3,945**	4,686
Total expenses	**13,804**	16,277
Net available revenue	**$ 2,386**	$ 8,764

See accompanying notes to other financial information.

Notes to Other Financial Information (Unaudited)

September 30, 2009 and 2008

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.

Other Report

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, 2009, and have issued our report thereon dated March 16, 2011. 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 deficiencies described below to be significant deficiencies 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, 2009, 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 2009 and 2008 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 needs 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 should be more timely with its future submissions.

Capital Assets Process

During 2009, the Authority performed a physical inventory of its capital assets and identified a capital asset which was not recorded on its books. The asset should have been recorded in fiscal year 2006 when the construction was completed. The construction project was managed by the USVI Public Finance Authority (PFA). The lack of control over the capitalization of construction projects managed by PFA led to an error in the financial statements.

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

The Authority should maintain internal controls robust enough to ensure that adequate and timely communication with PFA, and any other agency handling constructions on their behalf, is achieved to ensure that projects are monitored and controlled in such manner that significant transactions are captured and recorded in accordance with generally accepted accounting principles.

Management Response

Management concurs that internal controls are needed to ensure that significant transactions for projects completed on behalf of the Authority by other entities are communicated and captured, as such the Authority has reinstituted the Project Accountant position that is tasked with the tracking of all cost associated with capital projects that affect the Authority.

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 believe the deficiencies described above are 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.*

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

March 16, 2011

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