



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, 2010 and 2009
With Report of Independent Auditors

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, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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.

As described more fully in Note 15 to the financial statements, the September 30, 2009 financial statements have been restated to correct errors in the accounting for rebates and the calculation of depreciation of certain assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011 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 audit.

Management's discussion and analysis on pages 3 through 14 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

October 19, 2011

Virgin Islands Port Authority
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Management's Discussion and Analysis

The purpose of the following Management's 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, 2010 and 2009, with selected comparative information for the year ended September 30, 2008. 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 Aviation Division's revenues consist mainly of landing and passenger fees and rental income. The Aviation 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 2010 and 2009 are \$44.8 million and \$36.3 million, respectively. The fluctuation in operating revenues when compared to fiscal year 2009 is an increase of \$8.5 million or 23.7% in operating revenues. The Aviation Division recorded approximately 2.5% more revenues in 2010 than

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Management's Discussion and Analysis (continued)

2009. The 2010 marine revenues also increased by approximately 51% when compared to 2009.

The 2010 increase in revenues under the aviation division of 2.5% resulted from an overall increase of 63,655 in traffic from 2009; comprised of 40,497 increase at Cyril E. King Terminal and 23,158 increase at the Henry E. Rohlsen Airport Terminal on St. Croix. The net increase in passenger traffic is credited for the increase in revenues for aviation operating revenues User Fees and Dues. Rental revenues declined due to the loss of long-term leaseholds in the cargo facility and a major lessee for airport property at the Henry E. Rohlsen Airport. Other fees increased as a result of additional passenger traffic; the increase positively affected commissions, concessions and car rental.

In the Marine Division, revenues also increased due to increases in passenger activity and cruise calls to the port of St. Thomas. In 2010 cruise passengers increased by 201,969. The decline in 2009 was due to the customs dues write-off for marine user fees (wharfage and tonnage) that was not remitted to the Authority (See section: Wharfage and Tonnage). Rental increases were more significant at the Austin Babe Monsanto (ABM) Facility (Crown Bay). To date ABM remains not 100% occupied in tenancy, new tenants are constantly being sought to meet the tenant mix for the facility.

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 less 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. The increase in marine revenues resulted from rentals due to leasehold agreements.

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Management's Discussion and Analysis (continued)

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

<i>(In thousands of dollars)</i>	2010	2009 (as restated)	2008	Change 2010	Change 2009
Aviation operating revenues:					
Users' fees and dues	\$ 12,708	\$ 11,687	\$ 12,602	\$ 1,021	\$ (915)
Rentals	4,855	5,734	5,558	(879)	176
Others	3,518	3,154	3,338	364	(184)
Total Aviation operating revenues	21,081	20,575	21,498	506	(923)
Marine operating revenues:					
Users' fees and dues	13,082	10,102	14,344	2,980	(4,242)
Wharfage dues	4,808	83	4,523	4,725	(4,440)
Rentals	4,925	4,907	4,423	18	484
Others	949	605	860	344	(255)
Total Marine operating revenues	23,764	15,697	24,150	8,067	(8,453)
Total operating revenues	\$ 44,845	\$ 36,272	\$ 45,648	\$ 8,573	\$ (9,376)

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.

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Management's Discussion and Analysis (continued)

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 had \$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 from February 2008 through September 2009. The write-off exacerbates VIPA's operating loss to \$16 million at the close of FY 2009.

For FY 2010, VIPA is in compliance with debt coverage requirements in accordance with the 2003 Marine Bond indenture. Additionally, in FY 2009, 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 was \$2.3 million with debt coverage requirements of \$4.5 million resulting in a deficit in coverage of \$2.2 million.

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

Operating Expenses

In FY 2010, the Virgin Islands Port Authority total operating expenses increased 13.7% in comparison to the 5.5% decrease in fiscal 2009. Payroll, taxes and fringe benefits increased by 12.6%. Increase in payroll cost resulted from an arbitration award to all aviation related employees. In FY 2010 the Authority also paid 100% of the medical insurance for its employees. The recently arbitrated settlement will allow the Aviation unionized employees to share 15% of the medical insurance when all other unions have agreed. Medical insurance costs have increased ranging from 5%-13.5% over the last five years. Management supervisors were paid arbitrated salary increases of 2% in FY 2009.

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Management's Discussion and Analysis (continued)

Repairs and maintenance increased 26.2% due to parking lot repairs and fencing at the Blyden Marine facility, the Water & Power Authority parking lot, air condition and baggage belt at Cyril E. King and other repairs due to extensive flooding at the Cyril E. King Airport. In FY 2009, repairs and maintenance decreased by 6.7%.

The increase in materials and supplies and other services is 19.2% resulting from promotional and added security cost for the Austin Babe Monsanto facility, and other fees for services provided. In FY 2009 materials, supplies other services decreased by 12%.

Insurance decreased in FY 2010 by 11.5% due to new contracts that provided a decrease in the premiums for property. In FY 2009 Insurance increased by 9% due to additions to assets.

Other operating expenses increased 63.8%. The increase was due to increases in electrical expenses of \$.8 million and decreases in water cost for \$.3 million for a net result of \$.5 million. Additionally, \$2.2 million was set aside for bad debt for both the Aviation and Marine Division; this includes wharfage and tonnage fees collected by customs in FY 2010.

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

	2010	2009	2008	Change 2010	Change 2009
	<i>(as restated)</i>				
<i>(In thousands of dollars)</i>					
Payroll, payroll taxes and fringe benefits	\$ 19,502	\$ 17,323	\$ 18,322	\$ 2,179	\$ (999)
Repairs and maintenance	3,592	2,846	3,050	746	(204)
Materials, supplies and other services	5,721	4,799	5,458	922	(659)
Insurance	3,473	3,926	3,605	(453)	321
Depreciation	18,496	18,196	18,211	300	(15)
Other operating expenses	9,175	5,599	7,142	3,576	(1,543)
Total operating expenses	<u>\$ 59,959</u>	<u>\$ 52,689</u>	<u>\$ 55,788</u>	<u>\$ 7,270</u>	<u>\$ (3,099)</u>

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 2010 and 2009.

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Management's Discussion and Analysis (continued)

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 2010 and 2009, federal grants amounted to \$9.2 million and \$4.3 million, respectively. Federal funds received from FAA were used to rehabilitate the Cyril E. King Airport Runway, the Henry E. Rohlsen Runway (phase 1) and the balance for airport and fire rescue vehicles on St. Thomas and St. Croix; total received in 2010 - \$8.6 million. Other receipts came from TSA or the security and canine reimbursement \$0.51 million.

In fiscal year 2009, \$2.4 million was used towards the build out of the Red Hook terminal and dock facility; \$1.1 million towards the construction of Enighed Pond from Garvey Grant; \$0.62 million was received for the Cyril E. King Airport Security enhancement; \$0.58 million was received for the Airfield Rescue Fighters equipment and Pavement Management Plan; \$0.24 million for TSA Canine program; and \$0.18 million for St. Thomas Airfield Rescue & Fighters vehicle. Other federal funds received were approximately \$0.18 million for security officers on St. Croix and \$0.25 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.

Change in Net Assets

Total net assets, which represent the excess of assets over liabilities, for the Authority, decreased by \$5.9 million in 2010 and decreased by \$12.1 million in 2009. This change resulted from total operating expenditures of \$60.0 million and \$52.7 million, offset by revenues of \$44.8 million and \$36.3 million, net non-operating revenues of \$0.008 million and \$0.07 million and capital contributions of \$9.2 million and \$4.3 million in 2010 and 2009, respectively.

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Management's Discussion and Analysis (continued)

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, 2010, 2009, and 2008 is as follows:

<i>(In thousands of dollars)</i>	<u>2010</u>	<u>2009</u> <i>(as restated)</i>	<u>2008</u>
Assets			
Current assets	\$ 36,161	\$ 35,428	\$ 38,593
Non-current assets:			
Capital assets, net	245,517	247,800	257,133
Other non-current assets	5,440	5,495	5,382
Total assets	<u>287,118</u>	<u>288,723</u>	<u>301,108</u>
 Liabilities and Net Assets			
Liabilities:			
Current liabilities	18,072	11,812	11,976
Non-current liabilities - bonds payable	32,843	34,791	36,659
Total liabilities	<u>50,915</u>	<u>46,603</u>	<u>48,635</u>
Net assets:			
Invested in capital assets, net of related debt	210,735	211,161	218,715
Restricted	11,325	10,270	9,692
Unrestricted	14,143	20,689	24,066
Total net assets	<u>\$ 236,203</u>	<u>\$ 242,120</u>	<u>\$ 252,473</u>

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Management's Discussion and Analysis (continued)

During fiscal year 2010, the net decrease in capital assets amounting to \$2.28 million was mainly comprised of additions to capital assets amounting to \$16.5 million, net of depreciation expense of \$18.5 million.

During fiscal year 2009, the net decrease in capital assets amounting to \$11.0 million was mainly comprised of additions to capital assets amounting to \$8.0 million, net of depreciation expense of \$18.2 million.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Ann A Abramson Pier (Dredging)	–	–	\$0.07 million
Cyril E. King Fire Trucks	\$.7 million	–	–
Henry E. Rohlsen Fire Trucks	\$1.5 million	–	–
Construction of the marine terminal at Enighted Pond	–	\$1.1 million	–
Construction of marine terminal at Red Hook	–	\$.01 million	\$0.16 million
Resurface Cyril E. King Taxi Lane	–	–	\$1.65 million
Dredging and improvement of marine facilities	–	–	\$0.22 million
Crown Bay Dock and retail development	–	\$.19 million	–
Crown Bay Dredging	–	\$1.4 million	\$1.00 million
Cyril E. King Runway Roadway Lighting	\$.51 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	–
Rehabilitate CEKA Airport Runway	\$10.2 million	\$.44 million	–
HERA Pavement Management Plan	–	\$.33 million	–

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Management's Discussion and Analysis (continued)

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:

	<u>Interest Rate</u>
\$ 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, 2010 and 2009, for the Marine Revenue Bonds Series A&B is \$26.0 million and \$27.4 million, respectively.

In October of 2003, the Authority entered into an agreement with Banco Popular de Puerto Rico to finance the Authority's portion for 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 as 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 2010, the amount outstanding of the Marine Series C Bonds was \$8.7 million.

As of September 30, 2010 and 2009, the Marine revenue bonds outstanding amounted to \$34.8 million and \$36.6 million, respectively, a decrease of \$1.8 million compared to the balance outstanding as of September 30, 2009. The bonds outstanding as of September 30, 2010 and 2009 consisted of the Marine Revenues, series A, B and C bonds.

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Management's Discussion and Analysis (continued)

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 2010 and 2009, 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 Authority has received approximately \$169 million in entitlement and discretionary funds combined. A total of \$57.2 million in Entitlement funds and \$46 million in Discretionary funds for Cyril E. King Airport, and \$50.5 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.

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Management's Discussion and Analysis (continued)

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 2008 and 2009, 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, V.I. 00803.

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Statements of Net Assets

(In thousands of dollars)

	September 30	
	2010	2009
		<i>(as restated)</i>
Assets		
Current assets:		
Cash and cash equivalents (restricted - \$5,069 in 2010 and \$3,513 in 2009)	\$ 24,743	\$ 24,989
Accounts receivable - net of allowance for doubtful accounts of \$1,446 in 2010 and \$1,696 in 2009	4,504	4,085
Short-term investments	383	377
Sinking funds (restricted)	1,981	2,526
Receivables from U.S. Government agencies	276	600
Receivables from the Government of the U.S. Virgin Islands - net of allowance for doubtful account of \$1,773	1,607	-
Prepaid insurance	2,032	2,227
Other current assets	635	624
Total current assets	36,161	35,428
Noncurrent assets:		
Capital assets, net	245,517	247,800
Sinking funds (restricted)	4,275	4,231
Debt issue costs	1,165	1,264
Total noncurrent assets	250,957	253,295
Total assets	\$ 287,118	\$ 288,723

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Statements of Net Assets (continued)

(In thousands of dollars)

	September 30	
	<u>2010</u>	<u>2009</u> <i>(as restated)</i>
Liabilities and net assets		
Current liabilities:		
Note payable	\$ 1,301	\$ 1,474
Bonds payable, current portion	1,939	1,848
Accounts payable related to capital projects, including retainage on contracts	1,011	278
Compensated absences payable	1,743	1,914
Other accounts payable and accrued liabilities	<u>12,078</u>	<u>6,298</u>
Total current liabilities	<u>18,072</u>	11,812
Noncurrent liabilities:		
Bonds payable, net of current portion	<u>32,843</u>	<u>34,791</u>
Total liabilities	<u>50,915</u>	<u>46,603</u>
Net assets:		
Invested in capital assets, net of related debt	210,735	211,161
Restricted	11,325	10,270
Unrestricted	14,143	20,689
Total net assets	<u>\$ 236,203</u>	<u>\$ 242,120</u>

See accompanying notes

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Statements of Revenues, Expenses and Changes in Net Assets

(In thousands of dollars)

	Year Ended September 30	
	2010	2009
		<i>(as restated)</i>
Operating revenues		
Aviation	\$ 21,081	\$ 20,575
Marine	23,764	15,697
	44,845	36,272
Operating expenses		
Payroll, payroll taxes and fringe benefits	19,502	17,323
Repairs and maintenance	3,592	2,846
Materials, supplies and other services	5,721	4,799
Insurance	3,473	3,926
Depreciation	18,496	18,196
Other operating expenses	9,175	5,599
Total operating expenses	59,959	52,689
Operating loss	(15,114)	(16,417)
Non-operating revenues (expenses)		
Passenger facilities charges	1,547	1,486
Interest income	252	491
Interest expense	(1,791)	(1,909)
Total non-operating revenues, net	8	68
Change in net assets before capital contributions	(15,106)	(16,349)
Federal and state government capital contributions	9,189	4,282
Change in net assets	(5,917)	(12,067)
Net assets at beginning of year, as restated	242,120	254,187
Net assets at end of year	\$ 236,203	\$ 242,120

See accompanying notes.

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Statements of Cash Flows

(In thousands of dollars)

	Year Ended September 30	
	2010	2009
		<i>(as restated)</i>
Cash flows from operating activities		
Cash received from customers and others	\$ 41,351	\$ 40,377
Cash paid to suppliers and employees, net of capitalized expenses	(34,123)	(33,420)
Net cash provided by operating activities	7,228	6,957
Cash flows from investing activities		
Redemption in investments	(50)	(229)
Interest received from investments	252	491
Net cash provided by investing activities	202	262
Cash flows from capital and related financing activities		
Acquisition of capital assets	(15,480)	(8,035)
Proceeds from marine bond issue and note payable	2,695	2,467
Principal payments on bonds payable and note payable	(4,705)	(4,233)
Interest paid on bonds	(1,791)	(1,920)
Cash received from U.S. Government agencies and local government	9,513	6,596
Passenger facilities charges	1,547	1,486
Net cash used in capital and related financing activities	(8,221)	(3,639)
Net change in cash and cash equivalents	(791)	3,580
Cash and cash equivalents at beginning of year	27,515	23,935
Cash and cash equivalents at end of year	\$ 26,724	\$ 27,515
Cash and cash equivalents include		
Unrestricted and restricted cash and cash equivalents	\$ 24,743	\$ 24,989
Cash and cash equivalents restricted in sinking funds	1,981	2,526
	\$ 26,724	\$ 27,515

(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	
	2010	2009
		<i>(as restated)</i>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (15,114)	\$ (16,417)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	18,496	18,196
Bond issuance cost amortization	99	107
Premium amortization	(20)	(20)
Provision for uncollectibles	1,523	316
Change in assets and liabilities:		
Accounts receivable	(115)	934
Receivable from the Government of the U.S. Virgin Islands	(3,380)	3,031
Prepaid insurance	195	208
Other assets	(65)	(30)
Accounts payable and other accrued liabilities	5,609	632
Total adjustments	22,342	23,374
Net cash provided by operating activities	\$ 7,228	\$ 6,957

See accompanying notes.

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

Notes to Financial Statements

September 30, 2010 and 2009

(In thousands of dollars)

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:

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

Notes to Financial Statements (continued)

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.

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

Notes to Financial Statements (continued)

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.

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

Notes to Financial Statements (continued)

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

Investments

Investments are recorded at fair value in the statements of net assets and report changes in their fair value in the statements 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.

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 statements 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 2010 and 2009, 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.

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

Notes to Financial Statements (continued)

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:

	<u>Years</u>
Buildings and structures	20 - 40
Runways, aprons and pavings	10
Equipment	5 - 10
Land and harbor 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.

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

Notes to Financial Statements (continued)

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.

2. Cash and Cash Equivalents

Cash and cash equivalents, segregated by category at September 30, 2010 and 2009, are as follows (in thousands of dollars):

	2010		2009	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Restricted	\$ 5,051	\$ 5,069	\$ 3,813	\$ 3,513
Unrestricted	13,052	19,674	22,432	21,476
	\$ 18,103	\$ 24,743	\$ 26,245	\$ 24,989

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

Notes to Financial Statements (continued)

2. Cash and Cash Equivalents (continued)

At September 30, 2010 and 2009, 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, 2010, approximately \$17.5 million or 75.2% 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.

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.

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, 2010 were as follows (in thousands of dollars):

	2010		Total
	2003 Series A & B Marine Revenue Bonds	2003 Series C Marine Revenue Bonds	
Restricted:			
Debt service reserve	\$ 4,275	\$ 863	\$ 5,138
Construction	9	10	19
Operating maintenance renewal and replacement funds	1,098	1	1,099
	<u>\$ 5,382</u>	<u>\$ 874</u>	<u>\$ 6,256</u>

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

Notes to Financial Statements (continued)

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

Investments in the reserve accounts at September 30, 2009 were as follows (in thousands of dollars):

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

Restricted investments, categorized by investment type, and weighted average maturity, for 2010 and 2009, are as follows (in thousands of dollars):

	<u>2010</u>		<u>2009</u>	
	<u>Fair</u> <u>Value</u>	<u>Weighted Avg.</u> <u>Maturity (Years)</u>	<u>Fair</u> <u>Value</u>	<u>Weighted Avg.</u> <u>Maturity (Years)</u>
Money Market funds and cash equivalents	\$ 5,035		\$ 4,708	
Portfolio investments:				
U.S. government agencies notes	<u>1,221</u>	3.71	<u>2,049</u>	3.71
Total investments	<u>\$ 6,256</u>		<u>\$ 6,757</u>	

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

Notes to Financial Statements (continued)

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.

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, 2010, 78% 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 (78 %), Money Market Obligations (Federated Treasury Obligations (less than 1%), BPPR time deposit account (16%), and certification of deposits (6%).

At September 30, 2009, 79% 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%), U.S. Treasury Obligations (18%), Money Market Obligations (Federated Treasury Obligations (less than 1%), BPPR time deposit account (16%), and certification of deposits (5%).

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

Notes to Financial Statements (continued)

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, 2010, 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, 2010 comprise as follows:

<i>(In thousands of dollars)</i>	2009					2010
	(as restated)	Increase	Decrease	Transfers		
Capital assets not being depreciated:						
Land	\$ 20,696	\$ -	\$ -	\$ -	\$ -	20,696
Construction in progress	1,890	14,631	-	(14,019)	-	2,502
Total capital assets not being depreciated	<u>22,586</u>	<u>14,631</u>	<u>-</u>	<u>(14,019)</u>	<u>-</u>	23,198
Capital assets being depreciated:						
Buildings and structures	294,146	12,127	(303)	1,506	-	307,476
Runways, aprons and pavings	123,233	-	-	10,241	-	133,474
Equipment	21,120	1,717	(11)	2,241	-	25,067
Land and harbor improvements	38,730	-	(11,948)	31	-	26,813
Total capital assets being depreciated	<u>477,229</u>	<u>13,844</u>	<u>(12,262)</u>	<u>14,019</u>	<u>-</u>	492,830
Accumulated depreciation for:						
Buildings and structures	(130,465)	(8,179)	-	-	-	(138,644)
Runways, aprons and pavings	(89,294)	(5,630)	-	-	-	(94,924)
Equipment	(12,912)	(1,435)	-	-	-	(14,347)
Land and harbor improvements	(19,344)	(3,252)	-	-	-	(22,596)
Total accumulated depreciation	<u>(252,015)</u>	<u>(18,496)</u>	<u>-</u>	<u>-</u>	<u>-</u>	(270,511)
Total capital assets, net	<u>\$ 247,800</u>	<u>\$ 9,979</u>	<u>\$ (12,262)</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 245,517

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

Notes to Financial Statements (continued)

4. Capital Assets (Continued)

Capital assets as of September 30, 2009, as restated, comprise as follows:

<i>(In thousands of dollars)</i>	2008	Increase	Decrease	Transfers	2009
Capital assets not being depreciated:					
Land	\$ 20,696	\$ -	\$ -	\$ -	\$ 20,696
Construction in progress	1,389	5,435	(67)	(4,867)	1,890
Total capital assets not being depreciated	<u>22,085</u>	<u>5,435</u>	<u>(67)</u>	<u>(4,867)</u>	<u>22,586</u>
Capital assets being depreciated:					
Buildings and structures	292,006	1,144	67	929	294,146
Runways, aprons and pavings	122,431	-	-	802	123,233
Equipment	18,910	691	-	1,519	21,120
Land and harbor improvements	37,113	-	-	1,617	38,730
Total capital assets being depreciated	<u>470,460</u>	<u>1,835</u>	<u>67</u>	<u>4,867</u>	<u>477,229</u>
Accumulated depreciation for:					
Buildings and structures	(122,275)	(8,190)	-	-	(130,465)
Runways, aprons and pavings	(83,740)	(5,554)	-	-	(89,294)
Equipment	(11,549)	(1,363)	-	-	(12,912)
Land and harbor improvements	(16,255)	(3,089)	-	-	(19,344)
Total accumulated depreciation	<u>(233,819)</u>	<u>(18,196)</u>	<u>-</u>	<u>-</u>	<u>(252,015)</u>
Total capital assets, net	<u>\$ 258,726</u>	<u>\$ (10,926)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 247,800</u>

5. Notes Payable

In 2010, the Authority borrowed approximately \$2.7 million to finance certain insurance premiums. The notes payable bear interest at 3.1% and 3.49% and is payable in monthly installments over periods not exceeding 11 months. The balance outstanding as of September 30, 2010 was \$1.3 million.

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

Notes to Financial Statements (continued)

5. Notes Payable (continued)

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

Changes in notes payable for the years ended September 30, 2010 and 2009 follow (in thousands of dollars):

	2009	Increase	Decrease	2010
Insurance loan at 3.10%	\$ —	2,249	(1,164)	\$ 1,085
Insurance loan at 3.49%		446	(230)	216
Insurance loan at 3.49%	1,474	—	(1,474)	—
	\$ 1,474	\$ 2,695	\$ (2,868)	\$ 1,301

	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

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

Notes to Financial Statements (continued)

6. Bonds Payable

At September 30, 2010 and 2009, bonds payable consist of:

<i>(In thousands of dollars)</i>	2010	2009
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%	8,000	9,375
2003 Marine Revenue Draw Bonds, up to \$10,750 Series C; due serially, through September 1, 2023 and bearing interest of 4.40%	8,654	9,116
	34,659	36,496
Debt premium	123	143
Less current portion of long-term debt	(1,939)	(1,848)
	\$ 32,843	\$ 34,791

The aggregate debt service requirements of bonds payable at September 30, 2010 follow:

<i>(In thousands of dollars)</i>			
Years	Principal	Interest	Total
2011	\$ 1,939	\$ 1,690	\$ 3,629
2012	2,036	1,594	3,630
2013	2,139	1,493	3,632
2014	2,243	1,386	3,629
2015	2,363	1,268	3,631
2016 through 2020	13,740	4,397	18,137
2021 through 2023	10,199	892	11,091
Total	\$ 34,659	\$ 12,720	\$ 47,379

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

Notes to Financial Statements (continued)

6. Bonds Payable (continued)

Changes in bonds payable for the years ended September 30, 2010 and 2009, follow:

<i>(In thousands of dollars)</i>	2009	Increase	Decrease	2010
2003 Series A Marine Revenue Bonds	\$ 18,005	\$ –	\$ –	\$ 18,005
2003 Series B Marine Revenue Bonds	9,375	–	(1,375)	8,000
2003 Series C Marine Revenue Bonds	9,116	–	(462)	8,654
Premium and debt issue costs	143	–	(20)	123
	<u>\$ 36,639</u>	<u>\$ –</u>	<u>\$ (1,857)</u>	<u>\$ 34,782</u>

<i>(In thousands of dollars)</i>	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
	<u>\$ 38,417</u>	<u>\$ –</u>	<u>\$ (1,778)</u>	<u>\$ 36,639</u>

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.

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

Notes to Financial Statements (continued)

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 bond 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 Trustee 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.

Virgin Islands Port Authority
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Notes to Financial Statements (continued)

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 2010 or 2009.

9. Related Party Transactions

During the fiscal years ended September 30, 2010 and 2009, another enterprise fund of the Government of the U.S. Virgin Islands charged the Authority approximately \$6.3 million and \$5.7 million, respectively, for utility services rendered. Charges for such services are recurring and are included in the Authority's operating expenses.

Virgin Islands Port Authority
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Notes to Financial Statements (continued)

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, 2010 and 2009 were approximately \$2.3 million and \$1.8, respectively, equal to the Authority's required contribution.

Virgin Islands Port Authority
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Notes to Financial Statements (continued)

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 years 2010 and 2009.

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.

Virgin Islands Port Authority
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Notes to Financial Statements (continued)

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, 2010 and 2009, include contracts with non-cancelable terms for both fixed and variable rental charges. The agreements expire at various dates through 2012. During fiscal year 2010 and 2009, the Authority generated revenues of approximately \$9.8 million and \$10.6 million, respectively, through the leasing arrangements. Future estimated minimum fixed rentals under non-cancelable lease agreements and month-to-month follow:

<u>Year Ending September 30,</u>	<u>Amount</u>
2011	\$ 11,060
2012	11,764
2013	12,044
2014	12,066
	<u>\$ 46,934</u>

Virgin Islands Port Authority
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Notes to Financial Statements (continued)

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 2010 and 2009, the following customers provided more than 10% of the Aviation and Marine Divisions' total operating revenues as follows:

	<u>Division</u>	<u>2010</u>	<u>2009</u>
American Airlines	Aviation	14.7%	15.0%
Executive Airlines (American Eagle)	Aviation	12.4%	11.7%
Carnival Cruise Line	Marine	10.4%	12.5%
Princess Cruises	Marine	12.4%	12.2%
Royal Caribbean	Marine	16.7%	11.8%

15. Restatement of 2009 Financial Statements

During the year ended September 30, 2010, management of the Authority determined that its September 30, 2009 accrued rebates liability and accumulated depreciation were understated and overstated by \$751 and \$2,311, respectively, due to errors in the accounting for rebates and the calculation of depreciation expense in previous years.

The effect of the restatement is as follows:

	<u>Balance as Previously Reported</u>	<u>Restatement</u>	<u>Restated Balance</u>
Other accounts payable and accrued liabilities	\$ 5,547	\$ 751	\$ 6,298
Capital assets, net	245,489	2,311	247,800
Marine Division revenues	15,837	(140)	15,697
Depreciation expense	18,793	(597)	18,196
Unrestricted Net Assets – beginning of year	253,084	1,103	254,187

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

Notes to Financial Statements (continued)

16. Significant New Accounting Pronouncements

Future Adoption of Accounting Pronouncements

Management is evaluating the impact that the following statements will have on the Authority's financial statements:

The GASB has issued the following accounting standards that have effective dates after June 30, 2010:

- GASB Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement is effective for periods beginning after June 15, 2010.
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which: (i) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration; and (ii) the operator collects and is compensated by fees from third parties. This statement is effective for periods beginning after December 15, 2011.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basis Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This statement is effective for periods beginning after June 15, 2012.

Virgin Islands Port Authority
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Notes to Financial Statements (continued)

16. Significant New Accounting Pronouncements (continued)

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. (i) Financial Accounting Standard Board (FASB) Statements and Interpretations; (ii) Accounting Principles Board Opinions; and (iii) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011.

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)

Years Ended September 30, 2010 and 2009

(In thousands of dollars)

	St. Thomas Airport	Special Facilities	St. Croix Airport	2010 Total	2009 Total
Operating revenues					
Users' fees and dues	\$ 9,643	\$ –	\$ 3,065	\$ 12,708	\$ 11,688
Rentals	3,368	372	1,115	4,855	5,734
Others	2,816	112	590	3,518	3,153
Total operating revenues	<u>15,827</u>	<u>484</u>	<u>4,770</u>	21,081	20,575
Operating expenses					
Payroll, payroll taxes and fringe benefits	4,604	–	3,078	7,682	6,188
Repairs and maintenance	1,437	98	596	2,131	1,679
Materials, supplies and other services	864	11	525	1,400	1,163
Insurance	1,119	–	515	1,634	1,774
Depreciation	5,869	–	4,629	10,498	10,403
Other operating expenses	2,944	11	1,639	4,594	4,463
General and administrative allocation	3,843	27	2,506	6,376	5,778
Total operating expenses	<u>20,680</u>	<u>147</u>	<u>13,488</u>	34,315	31,448
Operating (loss) income	(4,853)	337	(8,718)	(13,234)	(10,873)
Non-operating revenues(expenses):					
Passenger facilities charges	1,519	–	28	1,547	1,486
Interest income	63	12	–	75	138
Interest expense	(14)	–	(2)	(16)	(40)
Total non-operating revenues, net	<u>1,568</u>	<u>12</u>	<u>26</u>	1,606	1,584
Change in net assets before capital contributions	(3,285)	349	(8,692)	(11,628)	(9,289)
Federal and state government grants	8,756	–	433	9,189	4,282
Change in net assets	<u>\$ 5,471</u>	<u>\$ 349</u>	<u>\$ (8,259)</u>	\$ (2,439)	<u>\$ (5,007)</u>

See accompanying notes to other financial information.

Virgin Islands Port Authority
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Schedule of Revenues and Expenses – Marine Division (Unaudited)

Years Ended September 30, 2010 and 2009

(In thousands of dollars)

	St. Thomas	St. Croix	2010 Total	2009 Total
Operating revenues				
Users' fees and dues	\$ 12,081	\$ 1,001	\$ 13,082	\$ 10,102
Wharfage dues	3,761	1,047	4,808	83
Rentals	4,521	404	4,925	4,907
Others	838	111	949	605
Total operating revenues	<u>21,201</u>	<u>2,563</u>	23,764	15,697
Operating expenses				
Payroll, payroll taxes and fringe benefits	3,259	1,200	4,459	4,518
Repairs and maintenance	678	173	851	678
Materials, supplies and other services	1,588	724	2,312	1,899
Insurance	1,093	547	1,640	1,981
Depreciation	5,366	2,321	7,687	7,480
Other operating expenses	3,171	759	3,930	783
General and administrative allocation	3,459	1,306	4,765	3,902
Total operating expenses	<u>18,614</u>	<u>7,030</u>	25,644	21,241
Operating income (loss)	2,587	(4,467)	(1,880)	(5,544)
Non-operating revenues (expenses):				
Interest income	177	–	177	353
Interest expense	(1,774)	(1)	(1,775)	(1,869)
Total non-operating revenues (expenses), net	<u>(1,597)</u>	<u>(1)</u>	(1,598)	(1,516)
Change in net assets before capital contributions	990	(4,468)	(3,478)	(7,060)
Federal and state government grants	–	–	–	–
Change in net assets	<u>\$ 990</u>	<u>\$ (4,468)</u>	\$ (3,478)	<u>\$ (7,060)</u>

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, 2010 and 2009

(In thousands of dollars)

	2010	2009
Payroll, payroll taxes and fringe benefits	\$ 7,361	\$ 6,617
Repairs and maintenance	610	489
Material, supplies and other services	2,009	1,737
Insurance	199	171
Depreciation	311	313
Other operating expenses	651	353
	\$ 11,141	\$ 9,680
Allocated as follows:		
Aviation	\$ 6,376	\$ 5,778
Marine	4,765	3,902
	\$ 11,141	\$ 9,680

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, 2010 and 2009

(In thousands of dollars)

	2010	2009
Revenues		
Operating revenues:		
Users' fees and dues	\$ 17,890	\$ 10,185
Rentals	4,925	4,907
Others	949	605
Interest income	177	353
Total revenues	23,941	16,050
Expenses		
Operating expenses:		
Payroll, payroll taxes and fringe benefits	4,459	4,518
Repairs and maintenance	851	678
Materials, supplies and other services	2,312	1,899
Insurance	1,640	1,981
Other operating expenses	3,930	783
General and administrative allocation	4,765	3,902
Total expenses	17,957	13,761
Net available revenues	\$ 5,984	\$ 2,289

See accompanying notes to other financial information.

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

Notes to Other Financial Information (Unaudited)

September 30, 2010 and 2009

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

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*

The Governing Board
Virgin Islands Port Authority

We have audited the financial statements of Virgin Islands Port Authority (the Authority) as of and for the year ended September 30, 2010, and have issued our report thereon dated October 19, 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in this report, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

Classification of capital assets

During 2010, the Authority identified a capital asset which was incorrectly classified as dredging structure instead of dock structures. That asset was acquired in 2005 as per the Authority's capital assets policy, dredging assets are depreciated over a useful live of 10 years while dock assets are depreciated over 20 years. The error in the classification caused the accumulated depreciation of this asset to be overstated for approximately \$1.7 million which resulted in the restatement of the 2009 financial statements.

A fundamental element of a sound system of internal controls is an effective review and supervisory function that helps detect accounting errors during the monthly financial statement close process. Management should implement procedures and controls surrounding the accounting for capital assets which may include a supervisory review of classification and useful lives for all assets capitalized during the period in accordance with the established policy.

Management Response

The Fixed Asset Accountant will provide for approval a detailed listing of all assets to be transferred to the Accounting Manager for approval. When necessary the Accounting Manager will consult with the Engineering Director on particulars related to the asset for proper classification.

Accounting for rebates liability

In 2007, the Authority entered into contracts with their main marine clients for the use of the U.S. Virgin Islands marine docks. Such contracts included clauses in which the Authority agreed to grant rebates to each cruise line based on the amount of passengers brought to the U.S. Virgin Islands. The contracts establish the minimum amounts of passengers these two cruise lines must bring annually in order to qualify for the rebate. The contracts were established for terms of 10 years, commencing from fiscal year 2007 through fiscal year 2016.

In 2010, the Authority concluded that a rebate liability of \$751 thousand should have been recorded in previous financial statements for the amount of rebate earned by each cruise line. The impact of this error resulted in the restatement of the 2009 financial statements.

The Authority must reinforce internal controls over the accounting for contracts and establish communication protocols within the organization to prevent and detect this error from recurring. Effective internal controls require all contracts to be analyzed and evaluated by a member of management with sufficient accounting knowledge to assess the financial reporting impact of such agreements to ensure appropriate accounting treatment.

Management Response

Management has set a policy to house all contracts in the Division of Administration and Finance. A log will be kept of all new contracts to include financial effect and terms of the contracts. Management will review logs before fiscal closing to ensure closing entries are made timely and recorded in correct years.

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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Authority's response to the findings identified in our audit are 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, 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

October 19, 2011

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