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

Management's Discussion and Analysis, Financial Statements (with Independent Auditor's Report Thereon) and Other Financial Information (Unaudited)
Years Ended September 30, 2013 and 2012

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Contents

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Independent Auditor's Report

To the Governing Board
Virgin Islands Port Authority

Report on the Financial Statements

We have audited the accompanying 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 year ended September 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2013 financial statements referred to above present fairly, in all material respects, the financial position of the Virgin Islands Port Authority, as of September 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Authority and do not purport to, and do not, present fairly the financial position of the Government of the U.S. Virgin Islands, as of September 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 6 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The other financial information, 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.

Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Prior Period Financial Statements

The financial statements of the Authority as of September 30, 2012, were audited by other auditors whose report dated July 8, 2013, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BDO USA, LLP

April 28, 2014

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 or VIPA) is to help readers understand the basic financial statements of the Authority for the years ended September 30, 2013 and 2012, with selected comparative information for the year ended September 30, 2011. This discussion has been prepared by management and should be read in conjunction with the basic 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 Position, the Statement of Revenues, Expenses and Changes in Net Position 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 Governmental Accounting Standards Board (GASB).

Financial Highlights

Operating Revenues

The total operating revenues for the Virgin Islands Port Authority for fiscal years 2013 and 2012 are $47.7 million and $47.2 million, respectively. The fluctuation in operating revenues when compared to fiscal year 2012 is an increase of approximately $500 thousand, or 0.9%. The Aviation Division recorded a decrease of approximately 0.6% in revenues in 2013 when compared to 2012. Additionally, 2013 marine revenues increased by approximately 2.2% when compared to 2012.

The 2013 decrease in revenues under the Aviation Division of 0.6% resulted from an overall decrease of 4.1% in passenger activity when compared to 2012; comprised of a decrease of 20,081 passengers at the Cyril E. King Airport Terminal in St. Thomas and 55,700 passengers at the Henry E. Rohlsen Airport Terminal in St. Croix. The total decrease in passengers is a result of several factors: relatively flat growth in worldwide passenger activity, the discontinuance of a significant airline in March 2013 and the sharp reduction in passengers traversing through the Henry E. Rohlsen Airport resulting from the lingering after effects of the 2012 closing of the Hovensa refinery on St. Croix.

As a result of decreased passenger traffic, most concessions related to passenger activity were negatively affected. Rental revenues reflected an increase of 15.0%. In this category, space rental to Auto Agencies, Hangars and Restaurants increased by 58%, 25% and 20%, respectively. Other fees decreased approximately 16.4%.

In the Marine Division, although cruise passenger activity remained relatively flat, overall revenues increased by 2.2% resulting from increases in wharfage dues and rentals of 4.7% and 4.0%, respectively. The increase in wharfage dues was largely attributed to the 15% administrative fee charged on the collections of the Marine Terminal Tax passed by the Legislature, which became effective in January 2012. The increase in rental revenues were more significant at the Austin Babe Monsanto (ABM) Facility (Crown Bay) where gift shop, other and land rentals increased by 10%, 14% and 7%, respectively.

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

(In thousands of dollars)	**2013**	**2012**	**2011**	**Change 2013**	**Change 2012**
Aviation operating revenues:					
Users' fees and dues	**$ 12,292**	$ 12,519	$ 12,116	$ (227)	$ 403
Rentals	**5,717**	4,970	4,867	747	103
Others	**3,252**	3,890	3,485	(638)	405
Total Aviation operating revenues	**21,261**	21,379	20,468	(118)	911
Marine operating revenues:					
Users' fees and dues	**14,123**	14,064	14,482	59	(418)
Wharfage dues	**6,194**	5,916	5,591	278	325
Rentals	**5,047**	4,853	5,019	194	(166)
Others	**1,046**	1,018	976	28	42
Total Marine operating revenues	**26,410**	25,851	26,068	559	(217)
Total operating revenues	**$ 47,671**	$ 47,230	$ 46,536	$ 441	$ 694

Wharfage and Tonnage

The U. S. Virgin Islands (USVI) 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 U.S. Virgin Islands' operations. Through a Memorandum of Agreement (MOA) signed in 1994 by the Government of the U.S. Virgin Islands (GVI) and Customs (now Custom Border and Protection and referred to as CBP), the latter was authorized to collect the USVI custom duties and the wharfage and tonnage port user fees of the Virgin Islands Port Authority. 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 VIPA, at which point the GVI charges a 5% administrative fee for processing a check to 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 Authority charges such fees to enable it to maintain the various marine facilities for expenses such as dredging, repairs and maintenance and replacement of facilities as needed.

Over time, CBP's cost for collecting has 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 to VIPA.

At the close of fiscal year 2009, VIPA had $6.2 million due from CBP. Currently, that amount is in dispute and accordingly VIPA wrote off the receivable related to the charges for the period from February 2008 through September 2009. The write-off exacerbated VIPA's operating loss to $16 million at the close of fiscal year 2009. For fiscal year 2012, VIPA has written off the receivables related to charges for fiscal year 2010 and 2011 in the amount of $3.5 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 a 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

Fiscal year 2013 operating expenses for the Virgin Islands Port Authority increased approximately 10.5% in comparison to 3.7% decrease in fiscal year 2012. Payroll, taxes and fringe benefits increased by 10.2%. Fiscal year 2013 and 2012 payroll costs included accruals for increases awarded through contractual agreements to the marine union dating back to fiscal year 2007 through fiscal year 2013. Repairs and maintenance and depreciation remained flat in fiscal year 2013. Materials and supplies and other operating expenses increased by 37.9% and 26.7%, respectively.

The Authority continued to pay 100% of medical insurance for all employees during fiscal year 2013. Although, the Authority has negotiated with most of its unions to share 15% of the medical insurance, the arrangement is to commence when all unions reach an agreement.

Insurance increased by 8.3%. Insurance rates were favorable for the Authority for most policies with the exception of the property policy which increased. The addition of reverted properties during fiscal year 2012, to the Authority's property listing contributed to this increase.

In fiscal year 2012, operating expenses for the Virgin Islands Port Authority decreased approximately 3.7% in comparison to a 0.3% increase in fiscal year 2011, while payroll, taxes and fringe benefits decreased by 1.6%.

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

(In thousands of dollars)	**2013**	**2012**	**2011**	**Change 2013**	**Change 2012**
Payroll, payroll taxes and fringe benefits	**$ 20,162**	$ 18,300	$ 18,595	$ 1,862	$ (295)
Repairs and maintenance	**3,199**	3,198	3,506	1	(308)
Materials, supplies and other services	**7,264**	5,269	4,889	1,995	380
Insurance	**3,879**	3,582	3,308	297	274
Depreciation	**20,451**	20,444	19,822	7	622
Other operating expenses	**9,068**	7,156	10,041	1,912	(2,885)
Total operating expenses	**$ 64,023**	$ 57,949	$ 60,161	$ 6,074	$ (2,212)

Non-Operating Revenues and Expenses

The Authority has permission from the Federal Aviation Administration (FAA) to collect passenger facility charges (PFC) of $4.50 for each passenger departing from CEKA and $3.00 for each passenger departing from 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 $3.1 million of PFC revenues in fiscal year 2013 compared to approximately $2.5 million in fiscal year 2012. This increase is attributed to enhanced collections from airline carriers.

Effective August 1, 2013, the Authority authorized a Customer Facility Charge (CFC) of $2.00 per transaction day per contract to be imposed for the rental of a vehicle from an on-airport rental car company located at Cyril E. King Airport.

In fiscal year 2012, the Authority recorded $4.2 million as capital assets related to five (5) leased properties reverted to its control. These improved properties are recorded based on appraised values of the site improvements that are reverting. The reverted values are shown as non-operating revenue with a corresponding entry to the asset being recorded.

Capital Contributions

Capital contributions are received from the U.S. Government, mainly the FAA, Federal Emergency Management Agency (FEMA), 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 year 2013, contributions amounted to $6.6 million. Federal contributions from FAA were $4.4 million to rehabilitate and evaluate the Cyril E. King Airport and $.3 million to rehabilitate and inspect the Henry E. Rohlsen Runway. Other federal contributions came from FEMA of $1.3 million, Transportation Security Administration (TSA) of $0.5 million for the security and canine reimbursement program and $0.1 million from other local contributions.

Change in Net Position

Total net position, which represents the excess of assets over liabilities, decreased by $7.4 million in 2013 and decreased by $0.2 million in 2012. This change resulted from total operating expenditures of $64 million and $57.9 million, offset by operating revenues of $47.7 million and $47.2 million, net non-operating revenues of $2.4 million and $5.2 million and capital contributions of $6.6 million and $5.3 million in 2013 and 2012, respectively.

Statements of Net Position

The Statement of Net Position 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 position at September 30, 2013 and 2012, is as follows:

(In thousands of dollars)	**2013**	**2012**	**2011**
Assets			
Current assets	**$ 39,607**	$ 38,694	$ 34,415
Noncurrent assets:			
Capital assets, net	**232,417**	240,402	248,980
Other noncurrent assets	**4,711**	4,792	5,348
Total assets	**276,735**	283,888	288,743
Liabilities and Net Position			
Liabilities:			
Current liabilities	**13,926**	11,301	13,718
Noncurrent liabilities	**27,165**	29,529	31,811
Total liabilities	**41,091**	40,830	45,529
Net position:			
Net investment in capital assets	**203,161**	209,533	215,112
Restricted	**13,016**	10,850	10,936
Unrestricted	**19,467**	22,675	17,166
Total net position	**$ 235,644**	$ 243,058	$ 243,214

During fiscal year 2013, the net decrease in capital assets amounting to approximately $8 million was the net effect of additions of capital assets amounting to $12.5 million, net of depreciation expense of $20.5 million.

During fiscal year 2012, the net decrease in capital assets amounting to $8.6 million was the net effect of additions to capital assets amounting to $11.8 million, net of depreciation expense of $20.4 million.

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

(In thousands of dollars)	**2013**	**2012**	**2011**
Security Upgrade – TWIC	**$ 1.7 million**	-	-
Enighed Pond Marine Terminal Building	**-**	$ 1.8 million	-
Enighed Pond Parking Lot	**-**	-	$ 1.2 million
Cyril E. King Baggage Make-up Belt	**-**	$ 1.5 million	$ 2.9 million
TSA Office Renovation – HERA	**$ 0.5 million**	-	-
Cyril E. King Runway Roadway Lighting	**$ 4.9 million**	-	-
HERA Runway Rehabilitation	**-**	$ 1.4 million	$ 6.9 million
Rehabilitate CEKA Airport Runway	**-**	-	$ 5.9 million
Cyril E. King Energy System	**-**	-	$ 2.9 million
Terminal Building Re-Roofing – CEKA	**$ 1.6 million**	-	-

Capital Financing and Debt Management

The Authority has three bond issues outstanding as of September 30, 2013. 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 $17.4 million.

A summary of the Marine Bonds' terms follows:

	Interest Rate
$5,930,000 Series A, due serially from 2015 through 2018	5.25%
$12,075,000 Series A, due serially from 2019 through 2023	5.00%
$6,745,000 Series B, due serially from 2003 through 2008	3.73%
$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, 2013 and 2012, for the Marine Revenue Series A&B Bonds is $21.4 million and $23 million, respectively.

In October of 2003, the Authority entered into an agreement with Banco Popular de Puerto Rico to finance the Authority's portion of 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 Revenue Series C Bonds (Non-AMT).

The financing for these projects was completed on September 30, 2005, in an amount not to exceed $10.8 million. At the close of fiscal year 2013, the amount outstanding of the Marine Revenue Series C Bonds was $6.9 million.

As of September 30, 2013 and 2012, the total Marine Revenue Bonds outstanding amounted to $28.3 million and $30.7 million, respectively.

As discussed in Note 6 to the financial statements, the 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 2013 and 2012, the Authority complied with the debt service coverage. The following table summarizes the results of such calculation for 2013:

Debt service coverage ratio-required	125%
Fiscal year 2013 debt service coverage ratio	167%
Excess of debt service coverage over bond indentures requirement	42%

Contingencies

St. Croix Municipal Landfill at Estate Anguilla

The Government of the U.S. Virgin Islands has addressed the previous issues related to the potential flight hazards created by birds attracted to the Anguilla Landfill near the Henry E. Rohlsen Airport, in accordance with the approved Compliance Plan between the Virgin Islands Waste Management Authority, VIPA and the FAA. With the landfill now only accepting baled debris, the FAA was satisfied with the progress made towards closing the facility. As a result, the FAA released approximately $3.1 million in discretionary funds to the Authority.

The Authority is maintaining the airfields at Henry E. Rohlsen and Cyril E. King Airport mostly with federal financial assistance 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 $185 million in entitlement and discretionary funds combined. A total of $62 million in Entitlement funds and $55 million in Discretionary funds for Cyril E. King Airport, and $53 million in Entitlement funds and $15 million in Discretionary funds for Henry E. Rohlsen Airport have been received.

Economic Factors 2013

In fiscal year 2013, the Virgin Islands Port Authority continued to encounter financial challenges resulting from the economic crises experienced in the Territory and abroad. The Authority's financial health and outlook are largely dependent on the Territory's air and cruise tourism industry, which, in turn, are significantly correlated to the health and outlook of the U.S. economy – particularly the availability of discretionary income.

The world economy is slowly but surely recovering from the recent recession; albeit with varying degrees of regional success: growth is weak in Europe, modest but picking up in the U.S., and healthy in emerging economies of Asia and Latin America. This recovery, although not yet assured, is favored to continue into the immediate future.

The U.S. economy, despite some weaknesses, has been improving moderately in recent years and that improvement is expected to continue and may even gather momentum in the future.

The present realities and outlook for the economic and tourism industry environment, in which the Authority must navigate, will require a continued focus on cost containment and identifying new revenue sources as an integral component of the Authority's sustainability strategy.

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 Chief Financial Officer at Administrative Building, Cyril E. King Airport, St. Thomas, V.I. 00803

Financial Statements

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

Statements of Net Position

(In thousands of dollars)

September 30,	**2013**	2012
Assets		
Current assets:		
Cash and cash equivalents (restricted - $6,949 in 2013 and $5,034 in 2012)	**$ 25,887**	$ 28,881
Short-term investments	**2,175**	395
Sinking funds (restricted)	**2,224**	1,991
Accounts receivable, net of allowance for doubtful accounts of $1,576 in 2013 and $1,432 in 2012	**3,827**	2,997
Receivables from U.S. Government agencies	**2,188**	1,157
Prepaid insurance	**2,541**	2,455
Other current assets	**765**	818
Total current assets	**39,607**	38,694
Noncurrent assets:		
Capital assets, net	**232,417**	240,402
Sinking funds (restricted)	**3,843**	3,825
Debt issue costs	**868**	967
Total noncurrent assets	**237,128**	245,194
Total assets	**$ 276,735**	$ 283,888
Liabilities and net position		
Current liabilites:		
Accounts payable related to capital projects, including retainage on contracts	**$ 893**	$ 107
Other accounts payable and accrued liabilities	**9,933**	6,213
Compensated absences payable	**846**	927
Note payable	**-**	1,929
Bonds payable	**2,254**	2,125
Total current liabilities	**13,926**	11,301
Noncurrent liabilities:		
Compensated absences payable	**1,056**	892
Bonds payable	**26,109**	28,637
Total liabilites	**41,091**	40,830
Net position:		
Net investment in capital assets	**203,161**	209,533
Restricted	**13,016**	10,850
Unrestricted	**19,467**	22,675
Total net position	**235,644**	243,058
Total liabilities and net position	**$ 276,735**	$ 283,888

See accompanying notes to the financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
(In thousands of dollars)

Years Ended September 30,	**2013**	2012
Operating revenues		
Aviation	**$ 21,261**	$ 21,379
Marine	**26,410**	25,851
Total operating revenues	**47,671**	47,230
Operating expenses		
Payroll, payroll taxes and fringe benefits	**20,162**	18,300
Materials, supplies and other services	**7,264**	5,269
Insurance	**3,879**	3,582
Depreciation	**20,451**	20,444
Repairs and maintenance	**3,199**	3,198
Other operating expenses	**9,068**	7,156
Total operating expenses	**64,023**	57,949
Operating loss	**(16,352)**	(10,719)
Non-operating revenues (expenses)		
Passenger facility charges	**3,074**	2,488
Insurance recovery	**779**	35
Interest income	**51**	121
Customer facility charges	**25**	–
Income from reversions of leased properties	**-**	4,200
Interest expense	**(1,552)**	(1,579)
Total non-operating revenues, net	**2,377**	5,265
Change in net position, before capital contributions	**(13,975)**	(5,454)
Federal and state government capital contributions	**6,561**	5,298
Change in net position	**(7,414)**	(156)
Net position, at beginning of year	**243,058**	243,214
Net position, at end of year	**$ 235,644**	$ 243,058

See accompanying notes to the financial statements.

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

Statements of Cash Flows
(In thousands of dollars)

Years Ended September 30,	**2013**	2012
Cash flows from operating activities		
Cash received from customers and others	**$ 46,682**	$ 47,030
Cash paid to suppliers and employees, net of capitalized expenses	**(38,491)**	(39,615)
Net cash provided by operating activities	**8,191**	7,415
Cash flows from investing activities		
(Redemption) proceeds of investments	**(1,798)**	451
Interest received from investments	**51**	72
Net cash (used in) provided by investing activities	**(1,747)**	523
Cash flows from capital and related financing activities		
Acquisition of capital assets	**(12,735)**	(8,590)
Principal payments on bonds payable and note payable	**(4,313)**	(5,095)
Interest paid	**(1,565)**	(1,587)
Proceeds from note payable	**-**	3,453
Cash received from U.S. Government agencies and local government	**5,530**	5,556
Passenger facility charges	**3,074**	2,488
Proceeds from insurance recovery	**779**	35
Customer facility charges	**25**	–
Net cash used in capital and related financing activities	**(9,205)**	(3,740)
Net change in cash and cash equivalents	**(2,761)**	4,198
Cash and cash equivalents, at beginning of year	**30,872**	26,674
Cash and cash equivalents, at end of year	**$ 28,111**	$ 30,872
Cash and cash equivalents		
Unrestricted and restriced cash and cash equivalents	**$ 25,887**	$ 28,881
Cash and cash equivalents restricted in sinking funds	**2,224**	1,991
	$ 28,111	$ 30,872

See accompanying notes to the financial statements.

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)

Years Ended September 30,	**2013**	2012
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	**$ (16,352)**	$ (10,719)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	**20,451**	20,444
Deferred charges write-off	**1,055**	–
Provision for doubtful accounts	**159**	263
Prepaid supplies write-off	**132**	–
Bond issuance cost amortization	**99**	99
Premium amortization	**(15)**	(18)
Change in assets and liabilities:		
Accounts receivable	**(989)**	(201)
Prepaid insurance	**(86)**	(203)
Other current assets	**(79)**	(136)
Accounts payable and other accrued liabilities	**3,733**	(2,114)
Compensated absences payable	**83**	–
Total adjustments	**24,543**	18,134
Net cash provided by operating activities	**$ 8,191**	$ 7,415

Supplemental schedule of noncash investing, capital and related financing activities		
Income from reversions of leased properties	**$ -**	$ 4,200

See accompanying notes to the financial statements.

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 (the 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. 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.

Basis of Accounting

The Authority complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). The operations of the Authority are presented as an enterprise fund and as such, the financial statements are reported using the economic measurement focus and the accrual basis of accounting. Under this basis, revenues are recognized in the period earned and expenses are recognized in the period incurred regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 position categories and to report the changes in net position. Net position represents the residual interest in the Authority's assets after liabilities are deducted and consist of the following categories:

- *Net investment in capital assets:* Capital assets, net of accumulated depreciation and outstanding principal balances of debt and accounts payable 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 position component as the unspent proceeds.

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

- *Unrestricted:* Net position that is not subject to externally imposed stipulations.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating 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.

Cash and 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 position. For purposes of the statements of cash flows, cash and cash equivalents also include the current portion of restricted balances deposited in the sinking funds.

Restricted cash and cash equivalents consist of Passenger Facility Charges and Customer Facility Charges deposited in interest bearing accounts. Unrestricted cash and cash equivalents may be used for operational purposes.

Short-term Investments

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 greater than three months but less than one year when purchased, are carried at amortized cost, which approximates fair value due to their short-term maturities.

Sinking Funds

The Authority maintains amounts deposited in sinking funds that are restricted for specific uses in accordance with the corresponding bond indentures (see Note 6), 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. The Authority is not permitted to use these funds for any other purpose.

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.

Capital Assets

Land transferred from the Federal 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 Federal Government. Depreciable assets transferred at inception by the Government of the U.S. Virgin Islands are carried at amounts estimated based on total capital expenditures incurred by predecessor agencies.

Depreciation has been accumulated on such assets from the dates the predecessor agencies incurred the expenditures and placed the assets in operation, based on their estimated average life. All other capital assets are carried at cost.

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

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

When assets are retired, the cost and related accumulated depreciation of the asset 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.

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 2013 and 2012, no interest expense was capitalized.

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.

Compensated Absences

Unpaid vacation 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, *Accounting for Pensions by State and Local Governmental Employers*. Under this statement, the pension expense is equal to the statutory required contribution to the plan. Also see Note 10.

Sources of Income

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

Passenger Facility Charges

The airlines that use the Authority's airport facilities collect a Passenger Facility Charge (PFC) of up to $4.50 per passenger from travelers leaving the U.S. Virgin Islands from the Cyril E. King Airport (CEKA) and $3.00 from travelers leaving the U.S. Virgin Islands from the Henry E. Rohlsen Airport (HERA). 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 the airlines. Due to their restricted use, PFCs are categorized as non-operating revenues and are recorded as restricted net position until the funds are expended. Once funds generated by PFCs are used in the construction of the FAA approved projects, such amounts are reflected in net investment in capital assets.

Customer Facility Charges

Effective August 1, 2013, the Authority authorized a Customer Facility Charge (CFC) of $2.00 per transaction day per contract to be imposed for the rental of a vehicle from an on-airport rental car company located at Cyril E. King Airport. Funds received from CFCs shall be used for paying the Authority's capital costs for construction and improvement of rental car facilities at the airport, including costs that support environmental sustainability or funding the Authority's costs for such other rental car related purposes as the Authority determines, in joint consultation, with the airport rental car companies.

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 capital contributions. If resources are received in advance of satisfying certain eligibility requirements, the recognition of revenues is deferred.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

2. Deposits

Deposits, segregated by category, are as follows at September 30, 2013:

(In thousands of dollars)	**Cash Deposits**	**Certificates of Deposits**	**Total**
Cash and cash equivalents	**$ 25,386**	**$ 501**	**$ 25,887**
Short-term investments	**-**	**2,175**	**2,175**
Sinking funds (restricted)	**6,067**	**-**	**6,067**
	$ 31,453	**$ 2,676**	**$ 34,129**

Deposits, segregated by category, are as follows at September 30, 2012:

(In thousands of dollars)	**Cash Deposits**	**Certificates of Deposits**	**Total**
Cash and cash equivalents	$ 27,412	$ 1,469	$ 28,881
Short-term investments	-	395	395
Sinking funds (restricted)	5,816	-	5,816
	$ 33,228	$ 1,864	$ 35,092

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. The Authority does not have a custodial risk policy. The Authority maintains its deposits at several financial institutions, which, at times may exceed federally insured limits. Generally, the Federal Deposit Insurance Corporation (FDIC) insures depositor funds up to $250,000. At September 30, 2013 and 2012, the Authority held $33.4 million and $34.3 million, respectively, in uninsured deposits. The Authority has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its deposits.

As of September 30, 2013, approximately $20.9 million or 61.2% of the Authority's deposits were held at Banco Popular de Puerto Rico. As of September 30, 2012, approximately $24.8 million or 70.8% of the Authority's deposits were held at Banco Popular de Puerto Rico.

3. Sinking Funds

Deposits in the reserve accounts at September 30, 2013, were as follows:

(In thousands of dollars)	**2003 Marine Revenue Series A&B Bonds**	**2003 Marine Revenue Series C Bonds**	**Total**
Debt service reserve	**$ 4,073**	**$ 876**	**$ 4,949**
Construction	**9**	**3**	**12**
Operating maintenance renewal and replacement funds	**1,105**	**1**	**1,106**
	$ 5,187	**$ 880**	**$ 6,067**

Deposits in the reserve accounts at September 30, 2012, were as follows:

(In thousands of dollars)	**2003 Marine Revenue Series A&B Bonds**	**2003 Marine Revenue Series C Bonds**	**Total**
Debt service reserve	$ 3,824	$ 869	$ 4,693
Construction	9	10	19
Operating maintenance renewal and replacement funds	1,103	1	1,104
	$ 4,936	$ 880	$ 5,816

4. Capital Assets

Capital assets as of September 30, 2013, are comprised as follows:

(In thousands of dollars)	Beginning Balance	Increase	Decrease	Transfers	Ending Balance
Non-depreciable assets:					
Land	$ 20,696	$ -	$ -	$ -	$ 20,696
Construction in progress	5,440	11,552	(1,055)	(5,093)	10,844
Total non-depreciable assets	26,136	11,552	(1,055)	(5,093)	31,540
Depreciable assets:					
Buildings and structures	314,287	223	-	1,577	316,087
Runaways, aprons and pavings	148,339	-	-	1,308	149,647
Equipment	34,622	1,746	-	2,208	38,576
Land and harbor improvements	27,769	-	-	-	27,769
Total depreciable assets	525,017	1,969	-	5,093	532,079
Accumulated depreciation for:					
Buildings and structures	(163,284)	(9,529)	-	-	(172,813)
Runaways, aprons and pavings	(108,845)	(6,746)	-	-	(115,591)
Equipment	(17,959)	(2,401)	-	-	(20,360)
Land and harbor improvements	(20,663)	(1,775)	-	-	(22,438)
Total accumulated depreciation	(310,751)	(20,451)	-	-	(331,202)
Total capital assets, net	$ 240,402	$ (6,930)	$ (1,055)	$ -	$ 232,417

The Authority has active construction projects as of September 30, 2013. The projects include improvements to runways and aprons, buildings, structures, roads and equipment. At fiscal year end, the Authority had an estimated $9.7 million in contractual commitments for these construction projects.

Capital assets as of September 30, 2012, are comprised as follows:

(In thousands of dollars)	Beginning Balance	Increase	Decrease	Transfers	Ending Balance
Non-depreciable assets:					
Land	$ 20,696	$ -	$ -	$ -	$ 20,696
Construction in progress	14,366	6,975	-	(15,901)	5,440
Total non-depreciable assets	35,062	6,975	-	(15,901)	26,136
Depreciable assets:					
Buildings and structures	307,522	4,200	-	2,565	314,287
Runaways, aprons and pavings	140,693	12	-	7,634	148,339
Equipment	29,103	654	-	4,865	34,622
Land and harbor improvements	26,932	-	-	837	27,769
Total depreciable assets	504,250	4,866	-	15,901	525,017
Accumulated depreciation for:					
Buildings and structures	(153,888)	(9,396)	-	-	(163,284)
Runaways, aprons and pavings	(101,577)	(7,268)	-	-	(108,845)
Equipment	(16,042)	(1,917)	-	-	(17,959)
Land and harbor improvements	(18,800)	(1,863)	-	-	(20,663)
Total accumulated depreciation	(290,307)	(20,444)	-	-	(310,751)
Total capital assets, net	$ 249,005	$ (8,603)	$ -	$ -	$ 240,402

5. Notes Payable

The Authority borrowed approximately $3.5 million to finance certain insurance premiums. The notes payable bear interest and are payable in monthly installments over periods not exceeding 11 months. The balance outstanding as of September 30, 2012, amounting to $1.9 million, was fully paid by the Authority in 2013 and no additional funding was obtained.

(In thousands of dollars)	2012	Increase	Decrease	2013
Insurance loan at 3.10%	$ 1,685	$ -	$ (1,685)	$ -
Insurance loan at 3.49%	244	-	(244)	-
Insurance loan at 2.75%	-	-	-	-
	$ 1,929	$ -	$ (1,929)	$ -

6. Long-term Liabilities

Revenue Bonds

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

At September 30, 2013 and 2012, bonds payable consist of:

(In thousands of dollars)	**2013**	**2012**
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%	**3,435**	5,035
2003 Marine Revenue Draw Bonds, up to $10,750 Series C; due serially through September 1, 2023, bearing interest of 4.40%	**6,850**	7,634
	28,290	30,674
Debt premium	**73**	88
Less current portion of long-term debt	**(2,254)**	(2,125)
	$ 26,109	$ 28,637

The aggregate debt service requirements of bonds payable, in thousands of dollars, at September 30, 2013, follow:

Years	Principal	Interest	Total
2014	$ 2,240	$ 1,374	$ 3,614
2015	2,360	1,257	3,617
2016	2,480	1,134	3,614
2017	2,600	1,008	3,608
2018 through 2022	15,120	2,944	18,064
2023	3,490	128	3,618
Total	$ 28,290	$ 7,845	$ 36,135

The Marine Revenue Bonds do not constitute general obligations of the Government of the U.S. Virgin Islands or the United States of America. Neither the credit of the Government 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 Marine Revenue Bonds represent a special limited obligation of the Authority and are payable and secured solely by a pledge of the Authority's net marine revenues, the Authority's right to receive net marine revenues and additional funds and accounts, as defined in the bonds' indentures.

The bonds' indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance and other costs specified in the corresponding 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 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.

For fiscal year 2013, 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 bonds' indentures, 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. The Authority did receive notification from its Trustee but noncompliance was covered within the 90 days.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2013, follows:

(In thousands of dollars)	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2003 Marine Revenue Bonds Series A	**$ 18,005**	**$ -**	**$ -**	**$ 18,005**	**$ -**
2003 Marine Revenue Bonds Series B	**5,035**	**-**	**(1,600)**	**3,435**	**1,680**
2003 Marine Revenue Bonds Series C	**7,634**	**-**	**(784)**	**6,850**	**560**
Premium and debt issue costs	**88**	**-**	**(15)**	**73**	**14**
Compensated absences payable	**1,819**	**1,010**	**(927)**	**1,902**	**846**
Total	**$ 32,581**	**$ 1,010**	**$ (3,326)**	**$ 30,265**	**$ 3,100**

Long-term liability activity for the year ended September 30, 2012, follows:

(In thousands of dollars)	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2003 Marine Revenue Bonds Series A	$ 18,005	$ -	$ -	$ 18,005	$ -
2003 Marine Revenue Bonds Series B	6,555	-	(1,520)	5,035	1,600
2003 Marine Revenue Bonds Series C	8,171	-	(537)	7,634	510
Premium and debt issue costs	105	-	(17)	88	15
Compensated absences payable	1,839	821	(841)	1,819	927
Total	$ 34,675	$ 821	$ (2,915)	$ 32,581	$ 3,052

7. User Agreements

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

User rates for the Marine Division are set by tariff, except for Holland and Princess cruise lines which operate under separate Cruise Ship Berth and Terminal User Agreements.

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 monies in accordance with the regulatory restrictions.

In 2013 and 2012, the Authority received approximately $.1 million and $1.8 million, respectively from the Virgin Islands Public Finance Authority to develop the capital projects. These amounts were recorded as state government capital contributions in the Statements of Revenues, Expenses and Changes in Net Position.

9. Related Party Transactions

During the fiscal years ended September 30, 2013 and 2012, another enterprise fund of the Government of the U.S. Virgin Islands charged the Authority approximately $7.6 million and $6.8 million, respectively, for utility services rendered. Charges for such services are recurring and are included in the Authority's operating expenses.

During fiscal year 2013 and 2012, the Authority paid to the Department of Planning and Natural Resources (DPNR), an agency of the Government of the U.S. Virgin Islands, certain fees for submerged land rentals of approximately $.3 million and $.5 million, respectively. Additionally, DPNR paid the Authority $.5 million, for both 2013 and 2012, related to office rental fees.

Further, the Authority has also leased several properties to various additional agencies of the Government of the U.S. Virgin Islands and received $.5 million in revenue from these units in both fiscal years 2013 and 2012.

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 entering service before January 1, 2011 and 8.5% for regular employees entering service from January 1, 2011, 9% for senators and 10% or 10.5% for certain employees covered by Act 5226 based on the date they entered service. 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 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, 2013, 2012 and 2011, amounted to $2.0 million for each of the respective years.

There are proposed changes to the System that could affect the Authority's employees going forward. The System is proposing increasing the Tier 1 regular employee and Tier 1 Class 3 hazardous duty employee contribution rate by 1% each year for three years beginning October 1, 2013. The Tiers are based on an employee's hire date relative to when the System's Reform Act of 2005 went into effect; those before October 1, 2005, are Tier 1 and those hired after that date are Tier 2 employees.

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, among other coverages, over $100 million in liability coverage for airport operators and owners and $50 million for auto and general liability claims at the marinas and other Authority properties off the airport premises. The Authority also carries a blanket policy with $40 million for each property claim. The liability policies have various deductibles all at $25,000 or less; the property policy imposes a general deductible of $100,000, with a 2% (of the property value) deductible for earthquakes and 5% (capped at various levels) deductible for windstorms. The Authority is also covered by separate policies for acts of terrorism.

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 suffered a loss of $2.1 million due to a fire at one of its properties in fiscal year 2012, of which $.8 million was recovered via insurance proceeds in fiscal year 2013. The remainder of the insurance proceeds is expected to be recovered in subsequent fiscal years.

12. Contingencies

Litigation

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.

Grant Funds

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. Management believes these non-compliance instances, if any, should not materially affect the Authority's financial position.

St. Croix Municipal Landfill at Estate Anguilla

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 the 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 was 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 Government show rapid progress toward closing the landfill. The matter was mitigated in fiscal year 2013 and the Authority is eligible for all grants.

The landfill is under the jurisdiction of another agency of the Government, the Virgin Islands Waste Management Authority (VIWMA). Thus, the Government and the Authority proposed a Compliance Plan which has been accepted by the FAA. Under the Compliance Plan, both VIWMA and the Authority are jointly responsible for maintenance of the surrounding areas to reduce the risk that flocks of birds could cause a plane crash and repossess adjacent miscellaneous properties.

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, 2013 and 2012, include contracts with non-cancelable terms for both fixed and variable rental charges. The agreements expire at various dates through 2018. During fiscal year 2013 and 2012, the Authority generated revenues of $10.8 million and $9.8 million, respectively, through the leasing arrangements.

Future estimated minimum fixed rentals under non-cancelable lease agreements and month-to-month agreements, in thousands of dollars, follow:

Year Ending September 30,	
2014	$ 12,473
2015	12,498
2016	12,611
2017	12,721
2018	12,602
	$ 62,905

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 2013 and 2012, the following customers provided more than 10% of the Aviation and Marine Divisions' total operating revenues:

	Division	**2013**	**2012**
American Airlines	Aviation	**18.0%**	20.4%
Carnival Cruise Line	Marine	**14.2%**	12.7%
Royal Caribbean Cruise Line	Marine	**21.6%**	21.0%

15. Subsequent Events

Events

In March 2014, the Authority purchased a parcel of land from the Virgin Islands Public Finance Authority for $.7 million in order to prepare for future development in the Crown Bay area.

In April 2014, the Authority amended its Marine tariff to institute an increase in ship dues and wharfage from $.85 to $2 and $1 to $3, respectively.

Management's Evaluation

Management has evaluated any events or transactions occurring after September 30, 2013, the statement of net position date, through April 28, 2014, the date the financial statements were available to be issued, and noted that there have been no additional events or transactions which would require adjustments to or disclosure in the Authority's financial statements for the year ended September 30, 2013.

Other Financial Information
(Unaudited)

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, 2013 and 2012
(In thousands of dollars)

	St. Thomas Airport	Special Facilities	St. Croix Airport	2013 Total	2012 Total
Operating revenues					
Users' fees and dues	**$ 9,725**	**$ -**	**$ 2,567**	**$ 12,292**	$ 12,519
Rentals	**4,002**	**547**	**1,168**	**5,717**	4,970
Others	**2,567**	**-**	**685**	**3,252**	3,890
Total operating revenues	**16,294**	**547**	**4,420**	**21,261**	21,379
Operating expenses					
Payroll, payroll taxes and fringe benefits	**3,009**	**-**	**2,437**	**5,446**	5,270
Repairs and maintenance	**1,002**	**240**	**697**	**1,939**	1,927
Materials, supplies and other services	**1,052**	**78**	**1,269**	**2,399**	1,287
Insurance	**1,187**	**14**	**595**	**1,796**	1,661
Depreciation	**8,114**	**56**	**4,329**	**12,499**	12,515
Other operating expenses	**3,548**	**6**	**1,697**	**5,251**	5,089
General and administrative allocation	**4,931**	**109**	**3,035**	**8,075**	7,119
Total operating expenses	**22,843**	**503**	**14,059**	**37,405**	34,868
Operating (loss) income	**(6,549)**	**44**	**(9,639)**	**(16,144)**	(13,489)
Non-operating revenues (expenses):					
Passenger facility charges	**2,582**	**-**	**492**	**3,074**	2,488
Customer facility charges	**25**	**-**	**-**	**25**	-
Income from reversions of leased properties	**-**	**-**	**-**	**-**	4,060
Interest income	**10**	**2**	**-**	**12**	34
Insurance recovery	**-**	**-**	**-**	**-**	6
Interest expense	**(35)**	**-**	**(3)**	**(38)**	(20)
Total non-operating revenues, net	**2,582**	**2**	**489**	**3,073**	6,568
Change in net position, before capital contributions	**(3,967)**	**46**	**(9,150)**	**(13,071)**	(6,921)
Federal and state government capital contributions	**4,835**	**-**	**544**	**5,379**	3,531
Change in net position	**$ 868**	**$ 46**	**$ (8,606)**	**$ (7,692)**	$ (3,390)

See accompanying notes to other financial information.

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

Schedule of Revenues and Expenses – Marine Division (Unaudited)
Years Ended September 30, 2013 and 2012
(In thousands of dollars)

	St. Thomas	St. Croix	2013 Total	2012 Total
Operating revenues				
Users' fees and dues	**$ 13,229**	**$ 894**	**$ 14,123**	$ 14,064
Wharfage dues	**5,223**	**971**	**6,194**	5,916
Rentals	**4,632**	**415**	**5,047**	4,853
Others	**988**	**58**	**1,046**	1,018
Total operating revenues	**24,072**	**2,338**	**26,410**	25,851
Operating expenses				
Payroll, payroll taxes and fringe benefits	**4,454**	**1,495**	**5,949**	4,776
Repairs and maintenance	**527**	**151**	**678**	601
Materials, supplies and other services	**1,748**	**618**	**2,366**	2,153
Insurance	**1,314**	**550**	**1,864**	1,707
Depreciation	**5,302**	**2,233**	**7,535**	7,548
Other operating expenses	**2,386**	**116**	**2,502**	1,577
General and administrative allocation	**4,331**	**1,421**	**5,752**	4,711
Total operating expenses	**20,062**	**6,584**	**26,646**	23,073
Operating income (loss)	**4,010**	**(4,246)**	**(236)**	2,778
Non-operating revenues (expenses):				
Insurance recovery	**779**	**-**	**779**	16
Income from reversions of leased properties	**-**	**-**	**-**	140
Interest income	**39**	**-**	**39**	87
Interest expense	**(1,486)**	**-**	**(1,486)**	(1,554)
Total non-operating (expenses), net	**(668)**	**-**	**(668)**	(1,311)
Change in net position, before capital contributions	**3,342**	**(4,246)**	**(904)**	1,467
Federal and state government capital contributions	**776**	**406**	**1,182**	1,767
Change in net position	**$ 4,118**	**$ (3,840)**	**$ 278**	$ 3,234

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 General and Administrative Expenses (Unaudited)
Years Ended September 30, 2013 and 2012
(In thousands of dollars)

	2013	2012
Payroll, payroll taxes and fringe benefits	**$ 8,767**	$ 8,254
Repairs and maintenance	**582**	669
Material, supplies and other services	**2,499**	1,830
Insurance	**219**	214
Depreciation	**417**	381
Other operating expenses	**1,315**	490
Interest expense	**28**	5
Insurance recovery	**-**	(13)
	$ 13,827	$ 11,830
Allocated as follows:		
Aviation	**$ 8,075**	$ 7,119
Marine	**5,752**	4,711
	$ 13,827	$ 11,830

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, 2013 and 2012
(In thousands of dollars)

	2013	2012
Revenues		
Operating revenues:		
Users' fees and dues	**$ 20,317**	$ 19,980
Rentals	**5,047**	4,853
Others	**1,046**	1,018
Interest income and insurance recovery	**818**	103
Total revenues	**27,228**	25,954
Expenses		
Operating expenses:		
Payroll, payroll taxes and fringe benefits	**5,949**	4,776
Repairs and maintenance	**678**	601
Materials, supplies and other services	**2,366**	2,153
Insurance	**1,864**	1,707
Other operating expenses	**2,502**	1,577
General and administrative allocation	**5,752**	4,711
Total expenses	**19,111**	15,525
Net available revenues	**$ 8,117**	$ 10,429

See accompanying notes to other financial information.

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 Schedule of Net Available Revenues for the Marine Division, as defined in the bonds' indentures, excludes all depreciation and certain non-cash charges. This schedule also excludes Passenger Facility Charges 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 operating expenses such as depreciation, maintenance and others, net of non-operating revenues or expenses, related to administrative divisions. These allocations are calculated on the basis of total operating expenses between the Marine and Aviation divisions.