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, 2016 and 2015

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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 years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free 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 audits. We conducted our audits 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Virgin Islands Port Authority, as of September 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of the Authority's share of the net pension liability, and the schedule of the Authority's contributions on pages 6 through 13 and 39 through 40 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 supplemental 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, these 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, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the years 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2017, 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

June 23, 2017

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, 2016 and 2015, with selected comparative information for the year ended September 30, 2014. 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 2016 and 2015 are $54.8 million and $53.1 million, respectively. The fluctuation in operating revenues when compared to fiscal year 2015 is an increase of approximately $1.7 million, or 3.2%. The Aviation Division recorded an increase of approximately 4.1% in revenues in 2016 when compared to 2015. Additionally, 2016 marine revenues increased by approximately 2.5% when compared to 2015.

The 2016 increase in revenues under the Aviation Division of 4.1% resulted from an overall increase of 4.3% in passenger activity when compared to 2015; which comprised of an increase of 19,698 passengers at the Cyril E. King Airport Terminal in St. Thomas and an increase of 20,950 passengers at the Henry E. Rohlsen Airport Terminal in St. Croix. Enplanements at both airports remain steady with enplanements of 0.97 million and 0.95 million for fiscal years 2016 and 2015, respectively.

As a result of increased passenger traffic, most concessions related to passenger activity were positively affected. The category of rentals also showed an increase of 6.2% attributed to land rental at the HERA Airport and increases in other rentals from the Authority's non-aeronautical tenants. Additionally, an increase of 2.4% was seen in the others revenue category.

In the Marine Division, overall revenues increased by 2.5% largely due to an increase in wharfage dues of 8.7%, attributed to wharfage and tonnage collections at our marine facilities. The category of users' fees and dues also showed a slight increase of 1.9%. Conversely the categories of rentals and others showed decreases of 1.7%, and 10.3%, respectively. The 10.3% decrease in the others revenue category is attributed to tenant electricity charge backs at the Austin Babe Monsanto Marine Terminal Center.

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

(In thousands of dollars)	**2016**	**2015**	**2014**	**Change 2016**	**Change 2015**
Aviation operating revenues:					
Users' fees and dues	**$ 13,972**	$ 13,465	$ 12,913	$ 507	$ 552
Rentals	**6,423**	6,050	5,689	373	361
Others	**4,278**	4,178	3,854	100	324
Total Aviation operating revenues	**24,673**	23,693	22,456	980	1,237
Marine operating revenues:					
Users' fees and dues	**14,736**	14,456	14,745	280	(289)
Wharfage dues	**8,363**	7,694	7,651	669	43
Rentals	**6,018**	6,122	5,389	(104)	733
Others	**1,006**	1,121	1,140	(115)	(19)
Total Marine operating revenues	**30,123**	29,393	28,925	730	468
Total operating revenues	**$ 54,796**	$ 53,086	$ 51,381	$ 1,710	$ 1,705

Wharfage and Tonnage

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.

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 (the Government or 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 GVI charges a 5% administrative fee for processing a check to VIPA.

Over time, CBP's cost for collecting has exceeded the amount of both the custom duties and port user fees collected. This has directly impacted the amounts available to remit to GVI and to VIPA. At the close of fiscal year 2009, the Authority wrote off $6.2 million due from CBP and at the close of fiscal year 2012, an additional amount of $3.5 million was written off.

Moving forward, 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 2016 operating expenses for the Virgin Islands Port Authority increased approximately 18.0% in comparison to 6.4% decrease in fiscal year 2015. Payroll, taxes, and fringe benefits increased by 60.5%. This was due to the second-year application of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* resulting in an increase of the Authority's allocable share of pension costs. Repairs and maintenance, materials and supplies, insurance, and other operating expenses decreased by 22.3%, 6.9%, 12.7%, and 19.6%, respectively; these aforementioned decreases were offset by an increase in depreciation expense of 2.4%.

Fiscal year 2015 operating expenses for the Virgin Islands Port Authority decreased approximately 6.4% in comparison to 1.8% increase in fiscal year 2014. Payroll, taxes, and fringe benefits increased by 0.9% mostly due to pension expense adjustments from the implementation of new accounting standards, as mentioned earlier. The Authority has been able to contain payroll costs due to a negotiated cost sharing arrangement consisting of 85% employer and 15% employee share, which commenced in October of fiscal year 2015. Repairs and maintenance, materials and supplies, insurance, depreciation, and other operating expenses decreased by 11.0%, 10.5%, 19.8%, 10.7 %, and 4.4%, respectively.

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

(In thousands of dollars)	2016	2015	2014	Change 2016	Change 2015
Payroll, payroll taxes, and fringe benefits*	**$ 36,466**	$ 22,714	$ 22,515	$ 13,752	$ 199
Repairs and maintenance	**2,610**	3,360	3,774	(750)	(414)
Materials, supplies, and other services	**6,103**	6,555	7,323	(452)	(768)
Insurance	**2,679**	3,068	3,826	(389)	(758)
Depreciation	**17,587**	17,179	19,239	408	(2,060)
Other operating expenses	**6,484**	8,063	8,430	(1,579)	(367)
Total operating expenses	**$ 71,929**	$ 60,939	$ 65,107	$ 10,990	$ (4,168)

** Includes pension expense of $12.2 million and $0.5 million for the years ended September 30, 2016 and 2015, respectively, related to the implementation of GASB Statement No. 68.*

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 $3.4 million of PFC revenues in fiscal year 2016 and approximately $3.2 million of PFC revenues in fiscal year 2015.

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 the Cyril E. King Airport. The Authority collected approximately $0.5 million of CFC revenues for both fiscal years 2016 and 2015.

Capital Contributions

Capital contributions are received from the U.S. Government, mainly the FAA, Transportation Security Administration (TSA), Federal Emergency Management Agency (FEMA), Federal Highway Administration (FHWA), Economic Development Administration (EDA), and the Government of the U.S. Virgin Islands to fund capital projects.

In fiscal year 2016, contributions amounted to $5.0 million. Federal contributions from FAA were $0.7 million to enhance security, rehabilitate and evaluate the Cyril E. King Airport, acquire an Aircraft, Rescue, and Firefighting (ARFF) vehicle, and $3.8 million to rehabilitate and inspect the Henry E. Rohlsen runway, install a perimeter fence, and construct and design an ARFF station. Other Federal contributions came from TSA of $0.5 million for the security and canine reimbursement program.

In fiscal year 2015, contributions amounted to $6.6 million. Federal contributions from FAA were $3.6 million to enhance security, rehabilitate and evaluate the Cyril E. King Airport, acquire an Aircraft, Rescue, and Firefighting (ARFF) vehicle, and $2.0 million to rehabilitate and inspect the Henry E. Rohlsen runway, install a perimeter fence, and construct and design an ARFF station. Other Federal contributions came from TSA of $0.5 million for the security and canine reimbursement program and $0.5 million for reimbursement for an office building.

Change in Net Position

Total change in net position decreased by $9.8 million in 2016 and increased by $0.4 million in 2015. This change resulted from total operating expenditures of $71.9 million and $60.9 million, offset by operating revenues of $54.8 million and $53.1 million, net non-operating revenues of $2.3 million and $1.7 million, and capital contributions of $5.0 million and $6.6 million in 2016 and 2015, 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 various components of financial position at September 30, 2016, 2015, and 2014 is as follows:

(In thousands of dollars)	**2016**	**2015**	**2014**
Assets			
Current assets	**$ 61,376**	$ 58,961	$ 37,973
Noncurrent assets:			
Capital assets, net	**236,968**	240,108	239,866
Other noncurrent assets	**3,831**	3,828	4,320
Total assets	**302,175**	302,897	282,159
Deferred outflows of resources	**42,882**	10,327	-
Liabilities			
Current liabilities	**15,699**	15,277	19,758
Noncurrent liabilities	**184,007**	143,783	25,798
Total liabilities	**199,706**	159,060	45,556
Deferred inflows of resources	**1,538**	513	-
Net position			
Net investment in capital assets	**214,411**	215,841	210,394
Restricted	**36,222**	36,872	10,786
Unrestricted (deficit)	**(106,820)**	(99,062)	15,423
Total net position	**$ 143,813**	$ 153,651	$ 236,603

During fiscal year 2016, the net decrease in capital assets amounting to approximately $3.1 million was the net effect of additions and retirement of capital assets amounting to $14.7 million and $0.3 million, respectively, net of depreciation expense of $17.6 million.

During fiscal year 2015, the net increase in capital assets amounting to approximately $0.2 million was the net effect of additions and retirement of capital assets amounting to $17.7 million and $0.3 million, respectively, net of depreciation expense of $17.2 million.

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

(In thousands of dollars)	**2016**	**2015**	**2014**
Apron Rehabilitation - HERA	**$ 2.7 million**	$ 1.4 million	$ 4.3 million
Aircraft Rescue Firefighting Station - HERA	**$ 2.1 million**	-	-
Dredging – Crown Bay Marina	**$ 1.6 million**	$ 4.8 million	$ 0.5 million
Paved Container Storage - St. John	**$ 1.0 million**	-	-
Public Announcement System - CEKA	**$ 0.8 million**	-	-
Rehabilitation - General Aviation - CEKA	**$ 0.2 million**	$ 1.6 million	$ 4.0 million
Baggage Claim Renovations - CEKA	-	$ 1.6 million	$ 3.2 million
Aircraft Rescue & Fire Fighting Vehicle	-	$ 0.9 million	-
Runway Roadway Lighting - CEKA	-	-	$ 4.4 million
Security Fence Rehabilitation - CEKA	-	-	$ 0.6 million
Terminal Building Re-Roofing – CEKA	-	-	$ 1.9 million

Capital Financing and Debt Management

The Authority has three bond issues outstanding as of September 30, 2016. They are the 2014 Marine Revenue Series A, B & C Bonds that were issued in October 2014. The Marine Revenue Bonds were issued in a three part series of 2014A (AMT), 2014B (Non-AMT), and 2014C (Federally taxable), in principal amounts of $28.8 million, $14.9 million, and $4.9 million, respectively. The Marine Revenue Bonds were issued for (i) refunding $24.5 million in 2003 Series A Marine Revenue bonds and pay off the 2003 Series bonds; (ii) financing of various capital projects; (iii) fund a deposit to the debt service fund; (iv) fund a deposit to the operation, maintenance, renewal and replacement reserve account; and (v) pay the cost of issuance of the 2014 Bonds.

A summary of the 2014 Marine Bonds' terms follows:

	Interest Rate
$28,765,000 Series A, due serially from 2015 through 2033	4.00% to 5.00%
$14,900,000 Series B, due serially from 2015 through 2044	3.00% to 5.00%
$4,920,000 Series C, due serially from 2015 through 2025	2.00% to 5.00%

The aggregate balance of the 2014 Marine Revenue Bonds as of September 30, 2016 and 2015 is $44.5 million and $46.8 million, respectively.

As discussed in Note 6 to the financial statements, the new bond indentures require a debt service coverage ratio of not less than 125% which is based on a formula also described in Note 6. In fiscal years 2016 and 2015, the Authority complied with the debt service coverage. The following table summarizes the results of such calculation for 2016:

Debt service coverage ratio-required	125%
Fiscal year 2016 debt service coverage ratio	209%
Excess of debt service coverage over bond indentures requirement	84%

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.

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 $215.0 million in entitlement and discretionary funds combined. A total of $68.0 million in Entitlement funds and $61.0 million in Discretionary funds for Cyril E. King Airport, and $63.0 million in Entitlement funds and $23.0 million in Discretionary funds for Henry E. Rohlsen Airport have been received.

Economic Factors 2016

The Authority's financial health and outlook are largely dependent on the U.S. Virgin Islands' tourism industry, which, in turn, is significantly correlated to the health and outlook of the U.S. economy. In fiscal year 2016 and similar to previous years, the majority of the Authority's revenues were derived from air and ship-owning firms transporting arriving visitors throughout its facilities. In fiscal year 2016, USVI air arrivals experienced a slight increase while sea arrivals experienced a slight decrease, with overall revenues remaining steady.

While benefiting from lower oil prices and a strong U.S. economy, the USVI continues to be impacted by the 2012 closing of the HOVENSA refinery in St. Croix. However, with a strong U.S. economy and being one of the most desirable vacation destinations in the Caribbean, the outlook for a continued and strong tourism business remains. The USVI overnight tourism business continues to see steady growth as: (i) number of available hotel rooms have grown slightly; and (ii) all the major U.S. airlines (except Southwest) serve the USVI.

Building on the continued strength of the U.S. economy, the source of the majority of USVI visitors, the outlook for USVI tourism remains very positive with (i) the substantial existing tourist infrastructure; (ii) the positive track record, extensive marketing, benefits as a U.S. Territory; and (iii) other factors that make the USVI one of the most desirable tourist beach and sun destinations. Additionally, the Government of the Virgin Islands and the Authority continue to work with the cruise lines to spread-out cruise ship arrivals, improve on-island facilities, attract ships to St. Croix, improve services to ship owners, and provide other incentives. Over the longer term, the largest growth is anticipated in cruise passengers as more mega-ships are completed and improved on-island facilities come on-line.

In summary, the long-term forecast is very positive for growth of USVI air and sea passengers and therefore, use of the Authority's facilities. This outlook is based upon a strong U.S. economy and intense competition (worldwide, in the U.S., and locally) to serve tourists among several industries such as the airlines, cruise lines, hotels, destination communities, visitor attractions, and other related industries and governments. 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, 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,	**2016**	2015
Assets		
Current assets:		
Cash and cash equivalents (restricted - $10,543 in 2016 and $7,756 in 2015)	**$ 19,643**	$ 14,599
Short-term investments	**11,327**	10,661
Sinking funds (restricted)	**21,848**	25,288
Accounts receivable (net of allowance for doubtful accounts of $1,587 in 2016 and $1,129 in 2015)	**3,938**	3,101
Receivables from U.S. Government agencies (net of allowance for doubtful accounts of $100 in 2016 and 2015)	**2,095**	3,183
Prepaid insurance	**1,059**	1,141
Other current assets	**1,466**	988
Total current assets	**61,376**	58,961
Noncurrent assets:		
Capital assets, net	**236,968**	240,108
Sinking funds (restricted)	**3,231**	3,228
Long-term investment	**600**	600
Total noncurrent assets	**240,799**	243,936
Total assets	**$ 302,175**	$ 302,897
Deferred outflows of resources		
Deferred charge on debt refunding	**$ 323**	$ 369
Pension related outflows	**42,559**	9,958
Total deferred outflows of resources	**$ 42,882**	$ 10,327
Liabilities		
Current liabilites:		
Accounts payable related to capital projects, including retainage on contracts	**$ 421**	$ 968
Other accounts payable and accrued liabilities	**10,369**	9,622
Capital lease payable	**-**	825
Compensated absences payable	**973**	947
Note payable	**912**	632
Bonds payable	**3,024**	2,283
Total current liabilities	**15,699**	15,277
Noncurrent liabilities:		
Compensated absences payable	**1,529**	1,408
Bonds payable	**45,356**	49,076
Net pension liability	**137,122**	93,299
Total noncurrent liabilities	**184,007**	143,783
Total liabilites	**$ 199,706**	$ 159,060
Deferred inflows of resources		
Pension related inflows	**$ 1,538**	$ 513
Net position:		
Net investment in capital assets	**$ 214,411**	$ 215,841
Restricted	**36,222**	36,872
Unrestricted (deficit)	**(106,820)**	(99,062)
Net position	**$ 143,813**	$ 153,651

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,	**2016**	2015
Operating revenues		
Aviation	**$ 24,673**	$ 23,693
Marine	**30,123**	29,393
Total operating revenues	**54,796**	53,086
Operating expenses		
Payroll, payroll taxes, and fringe benefits	**36,466**	22,714
Depreciation	**17,587**	17,179
Materials, supplies, and other services	**6,103**	6,555
Insurance	**2,679**	3,068
Repairs and maintenance	**2,610**	3,360
Other operating expenses	**6,484**	8,063
Total operating expenses	**71,929**	60,939
Operating loss	**(17,133)**	(7,853)
Non-operating revenues (expenses)		
Passenger facility charges	**3,388**	3,206
Customer facility charges	**462**	487
Interest income	**253**	196
Insurance recovery	**3**	66
Other non-operating revenues	**-**	265
Interest expense	**(1,689)**	(1,686)
Financing expenses	**(73)**	(820)
Other non-operating expenses	**(50)**	(30)
Total non-operating revenues, net	**2,294**	1,684
Change in net position, before capital contributions	**(14,839)**	(6,169)
Federal and state government capital contributions	**5,001**	6,554
Change in net position	**(9,838)**	385
Net position, beginning of year	**153,651**	236,603
Change in accounting principle	**-**	(83,337)
Net position, at beginning of year, as restated	**153,651**	153,266
Net position, at end of year	**$ 143,813**	$ 153,651

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,	**2016**	2015
Cash flows from operating activities		
Cash received from customers and others	**$ 53,212**	$ 53,270
Cash paid to suppliers and employees, net of capitalized expenses	**(41,252)**	(46,525)
Net cash provided by operating activities	**11,960**	6,745
Cash flows from investing activities		
Purchase of investments	**(719)**	(1,615)
Interest received from investments	**253**	196
Proceeds from sale of investments	**-**	982
Net cash used in investing activities	**(466)**	(437)
Cash flows from capital and related financing activities		
Acquisition of capital assets	**(15,296)**	(18,425)
Proceeds from note payable	**2,512**	1,965
Principal payments on bonds payable	**(2,220)**	(27,863)
Principal payments on note payable	**(2,232)**	(1,333)
Principal payments on capital lease payable	**(825)**	(900)
Interest paid	**(1,698)**	(1,605)
Financing expenses paid	**(73)**	(820)
Proceeds from bond issuance	**-**	54,334
Cash received from U.S. Government and local government agencies	**6,089**	5,911
Passenger facility charges	**3,388**	3,206
Customer facility charges	**462**	487
Proceeds from insurance recovery	**3**	308
Net cash (used in) provided by capital and related financing activities	**(9,890)**	15,265
Net change in cash and cash equivalents	**1,604**	21,573
Cash and cash equivalents, at beginning of year	**39,887**	18,314
Cash and cash equivalents, at end of year	**$ 41,491**	$ 39,887
Cash and cash equivalents		
Unrestricted and restricted cash and cash equivalents	**$ 19,643**	$ 14,599
Cash and cash equivalents restricted in sinking funds	**21,848**	25,288
	$ 41,491	$ 39,887

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,	**2016**	2015
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	**$ (17,133)**	$ (7,853)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	**17,587**	17,179
Deferred charges write-off	**302**	77
Provision for doubtful accounts	**747**	212
Prepaid supplies write-off	**75**	23
Deferred charge on debt refunding amortization	**46**	47
Premium amortization	**(759)**	(781)
Increase in pension expense	**43,823**	93,299
Deferred outflows of resources	**(32,601)**	(10,327)
Deferred inflows of resources	**1,025**	513
Change in accounting principle	**-**	(83,337)
Change in assets and liabilities:		
Accounts receivable	**(1,584)**	184
Prepaid insurance	**82**	1,154
Other current assets	**(553)**	543
Accounts payable and other accrued liabilities	**756**	(4,368)
Compensated absences payable	**147**	180
Total adjustments	**29,093**	14,598
Net cash provided by operating activities	**$ 11,960**	$ 6,745

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 or GVI) 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 and deferred outflows after liabilities and deferred inflows 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.

Investments

Short-term investments, which consist of non-negotiable certificates of deposits and other highly liquid investments such as U.S. Government and agency securities with a maturity of greater than three months but not more than one year when purchased, are carried at amortized cost, which approximates fair value due to their short-term maturities. All other highly liquid instruments, which are to be used for the long-term purposes of the Authority, are classified as investments.

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 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. 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 - 18
Land and harbor improvements	10 - 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. During fiscal year 2016, no assets were retired. During fiscal year 2015, the Authority incurred a non-operating expense of $3 thousand due to retirement of assets.

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 2016 and 2015, no interest expense was capitalized.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of (i) unrecognized items not yet charged to pension expense and contributions from the Authority after the measurement date but before the end of the Authority's reporting period; and (ii) deferred charges on debt refunding (also see bond issuance and refunding policy note).

Compensated Absences

Unpaid vacation leave compensation, as well as the Authority's share of related social security taxes, is 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.

Bond Issuance and Refunding

Bonds and notes premiums and discounts are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount.

When issuing new debt for refunding purposes, the difference between the reacquisition price of the new debt and the net carrying amount of the refunded debt is recognized as either a deferred outflow of resources or deferred inflow or resources and amortized using the straight-line method as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Net Pension Liability

In 2015, the Authority implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to pensions. While restatement of all prior periods was not practical because information regarding the historical proportionate share of actuarial information to the Authority was not available, the impact of implementing the statements is shown as a change in the beginning net position in fiscal year 2015. The adjustment, in thousands of dollars, decreasing beginning net position by ($83,337) is comprised of the net pension liability at October 1, 2014, of ($85,402) less deferred outflows or resources of $2,065 for contributions made subsequent to the measurement date of September 30, 2013 through September 30, 2014.

For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the pension plans, as well as additions to and deductions from the pension plan fiduciary net position have been determined on the same basis as they are reported in the financial statements of the Government of the Virgin Islands Employees' Retirement System (GERS). Authority contributions are recognized when due and the Authority has a legal requirement to provide the contributions. Also see Note 10.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the unamortized portion of the net differences between projected and actual earnings on pension plan investments, changes in assumptions, and other differences between expected and actual experience.

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.

New Accounting Pronouncements

In February 2015, GASB approved Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for the Authority's financial statements for the year ended September 30, 2016. The Authority has evaluated this Statement and has provided additional disclosure within Note 2.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68*. This Statement establishes requirements for defined benefit and defined contribution pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67 and Statement No. 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement are effective for the Authority's financial statements for the year ended September 30, 2016. The Authority has evaluated this Statement and has determined there is no impact on the financial statements.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The objective of this Statement is to address the accounting and financial reporting for certain external investments pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement are effective for the Authority's financial statements for the year ended September 30, 2016. The Authority has evaluated this Statement and has determined there is no impact on the financial statements.

2. Deposits

Deposits, segregated by category, are as follows at September 30, 2016:

(In thousands of dollars)	Cash Deposits	Certificates of Deposits	Total
Cash and cash equivalents	$ 19,643	$ -	$ 19,643
Investments	-	11,927	11,927
Sinking funds (restricted)	25,079	-	25,079
	$ 44,722	$ 11,927	$ 56,649

Deposits, segregated by category, are as follows at September 30, 2015:

(In thousands of dollars)	Cash Deposits	Certificates of Deposits	Total
Cash and cash equivalents	$ 14,599	$ -	$ 14,599
Investments	-	11,261	11,261
Sinking funds (restricted)	28,516	-	28,516
	$ 43,115	$ 11,261	$ 54,376

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, 2016 and 2015, the Authority held $58.0 million and $54.4 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, 2016, approximately $25.1 million or 42.7% of the Authority's deposits were held at US Bank. As of September 30, 2015, approximately $28.8 million or 52.2% of the Authority's deposits were held at US Bank.

Fair Value Measurements

Fair value is defined by GASB Statement No. 72, as the price that would be received to sell an asset or to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by the generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 are significant unobservable inputs.

As of September 30, 2016 and 2015, the Authority's investments include certificates of deposits, which are not subject to the fair value hierarchy.

3. Sinking Funds

Deposits in the reserve accounts at September 30, 2016, were as follows:

(In thousands of dollars)	**2014 Marine Revenue Series A,B & C Bonds**
Construction	**$ 21,837**
Debt service reserve	**3,231**
Cost of issuance	**5**
Interest	**6**
	$ 25,079

Deposits in the reserve accounts at September 30, 2015, were as follows:

(In thousands of dollars)	**2014 Marine Revenue Series A,B & C Bonds**
Construction	$ 25,279
Debt service reserve	3,228
Cost of issuance	5
Interest	4
	$ 28,516

4. Capital Assets

Capital assets as of September 30, 2016, are comprised as follows:

(In thousands of dollars)	Beginning Balance	Increase	Decrease	Transfers	Ending Balance
Non-depreciable assets:					
Land	$ 23,697	$ 75	$ -	$ -	$ 23,772
Construction in progress	32,890	13,486	-	(23,758)	22,618
Total non-depreciable assets	56,587	13,561	-	(23,758)	46,390
Depreciable assets:					
Buildings and structures	321,960	42	-	4,685	326,687
Runaways, aprons, and pavings	155,140	-	-	15,821	170,961
Equipment	35,186	1,125	-	2,950	39,261
Land and harbor improvements	30,842	21	-	-	30,863
Total depreciable assets	543,128	1,188	-	23,456	567,772
Accumulated depreciation for:					
Buildings and structures	(190,315)	(8,243)	-	-	(198,558)
Runaways, aprons, and pavings	(126,065)	(5,022)	-	-	(131,087)
Equipment	(18,234)	(3,139)	-	-	(21,373)
Land and harbor improvements	(24,993)	(1,183)	-	-	(26,176)
Total accumulated depreciation	(359,607)	(17,587)	-	-	(377,194)
Total capital assets, net	$ 240,108	$ (2,838)	$ -	$ (302)	$ 236,968

The Authority has active construction projects as of September 30, 2016. The projects include improvements to runways and aprons, buildings, structures, roads and equipment. At fiscal year end, the Authority had an estimated $19.0 million in contractual commitments for these construction projects.

Capital assets as of September 30, 2015, are comprised as follows:

(In thousands of dollars)	Beginning Balance	Increase	Decrease	Transfers	Ending Balance
Non-depreciable assets:					
Land	$ 23,697	$ -	$ -	$ -	$ 23,697
Construction in progress	26,432	16,132	-	(9,674)	32,890
Total non-depreciable assets	50,129	16,132	-	(9,674)	56,587
Depreciable assets:					
Buildings and structures	321,003	104	-	853	321,960
Runaways, aprons, and pavings	150,369	-	-	4,771	155,140
Equipment	35,305	1,342	(2,556)	1,095	35,186
Land and harbor improvements	27,799	165	-	2,878	30,842
Total depreciable assets	534,476	1,611	(2,556)	9,597	543,128
Accumulated depreciation for:					
Buildings and structures	(182,111)	(8,204)	-	-	(190,315)
Runaways, aprons, and pavings	(121,039)	(5,026)	-	-	(126,065)
Equipment	(17,619)	(2,926)	2,311	-	(18,234)
Land and harbor improvements	(23,970)	(1,023)	-	-	(24,993)
Total accumulated depreciation	(344,739)	(17,179)	2,311	-	(359,607)
Total capital assets, net	$ 239,866	$ 564	$ (245)	$ (77)	$ 240,108

5. Note Payable

In April 2016, the Authority obtained a short-term note for $1.8 million with interest at a 2.73% annual rate. This note has a 9-month maturity and is due in January 2017. This note was used to finance the Authority's insurance premiums. The outstanding balance of $0.9 million as of September 30, 2016, was paid off in December 2016.

In April 2015, the Authority obtained a short-term note for $1.9 million with interest at a 1.98% annual rate. This note has a 10-month maturity and was due in February 2016. This note was used to finance the Authority's insurance premiums. The outstanding balance of $0.6 million as of September 30, 2015, was paid off in January 2016.

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 \$18.0 million and \$17.4 million, respectively. 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.

In October 2014, the Authority issued three series of 2014 Series Marine Revenue Bonds A, B & C amounting to \$48.6 million, with an average interest rate of 4.70%. A portion of the proceeds was used to refund the outstanding bond series 2003 A and C amounting to \$24.5 million, which included accrued interest as of the redemption date for October 27, 2014. The proceeds from the issuance of the 2014 Series used in the refunding were deposited in an escrow account, held by the Trustee on behalf of the holders of the refunded bonds, and applied to such redemption contemporaneously with the issuance of the Series 2014 Bonds. As a result, the 2003 A & C Bonds were paid off and were removed from the Authority's books. The 2003 Series B Marine Revenue Bonds were paid off using the Marine Division's surplus funds. As a result of the refunding, the Authority reduced its total debt service requirement by \$1.7 million, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$2.4 million. In addition, the Authority recognized a deferred charge on debt refunding amounting to \$0.4 million.

The remaining proceeds of the 2014 Bonds, together with certain other available funds of the Authority, will be used for: (i) for the financing of various capital projects; (ii) to fund a deposit to the debt service fund; (iii) to fund a deposit to the operation, maintenance, renewal and replacement reserve account; and (iv) to pay the cost of issuance of the 2014 Bonds. At September 30, 2016 and 2015, bonds payable consist of:

(In thousands of dollars)	**2016**	2015
Marine Division:		
2014 Marine Revenue Bonds, \$28,765 Series A; due serially from September 1, 2015 through September, 1, 2033, bearing interest ranging from 4.00% to 5.00%	**\$ 26,740**	\$ 28,465
2014 Marine Revenue Bonds, \$14,900 Series B; due serially from September 1, 2015 through September, 1, 2044, bearing interest ranging from 3.00% to 5.00%	**13,880**	14,375
2014 Marine Revenue Bonds, \$4,920 Series C; due serially from September 1, 2015 through September, 1, 2025, bearing interest ranging from 2.00% to 5.00%	**3,920**	3,920
	44,540	46,760
Debt premium	**3,840**	4,599
Less current portion of long-term debt	**(3,024)**	(2,283)
	\$ 45,356	\$ 49,076

The aggregate debt service requirements of bonds payable, in thousands of dollars, at September 30 are as follows:

Year Ending September 30,	Principal	Interest	Total
2017	$ 2,330	$ 2,227	$ 4,557
2018	2,445	2,110	4,555
2019	2,565	1,988	4,553
2020	2,695	1,860	4,555
2021	2,835	1,725	4,560
2022 through 2044	31,670	14,212	45,882
Total	$ 44,540	$ 24,122	$ 68,662

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 (i) 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; (ii) the amount of the debt service reserve fund deposit requirement for such period; (iii) the deposit required to the Renewal and Replacement Fund; and (iv) the amount of the capital improvements appropriation for such period.

Capital Lease

In August 2014, the Authority entered into a lease-option agreement with a third party to purchase land for a total cost of $2.3 million. The Authority paid the remaining balance of $0.8 million in fiscal year 2016.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2016, follows:

(In thousands of dollars)	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**	**Due Within One Year**
2014 Marine Revenue Bonds Series A	**$ 28,465**	**$ -**	**$ (1,725)**	**$ 26,740**	**$ 1,815**
2014 Marine Revenue Bonds Series B	**14,375**	**-**	**(495)**	**13,880**	**515**
2014 Marine Revenue Bonds Series C	**3,920**	**-**	**-**	**3,920**	**-**
Debt premium	**4,599**	**-**	**(759)**	**3,840**	**694**
Capital lease payable	**825**	**-**	**(825)**	**-**	**-**
Compensated absences payable	**2,355**	**1,247**	**(1,100)**	**2,502**	**973**
Total	**$ 54,539**	**$ 1,247**	**$ (4,904)**	**$ 50,882**	**$ 3,997**

Long-term liability activity for the year ended September 30, 2015, follows:

(In thousands of dollars)	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**	**Due Within One Year**
2014 Marine Revenue Bonds Series A	$ -	$ 28,765	$ (300)	$ 28,465	$ 1,725
2014 Marine Revenue Bonds Series B	-	14,900	(525)	14,375	495
2014 Marine Revenue Bonds Series C	-	4,920	(1,000)	3,920	-
2003 Marine Revenue Bonds Series A	18,005	-	(18,005)	-	-
2003 Marine Revenue Bonds Series B	1,755	-	(1,755)	-	-
2003 Marine Revenue Bonds Series C	6,278	-	(6,278)	-	-
Debt premium	59	5,321	(781)	4,599	63
Capital lease payable	1,725	-	(900)	825	825
Compensated absences payable	2,175	1,266	(1,086)	2,355	947
Total	$ 29,997	$ 55,172	$ (30,630)	$ 54,539	$ 4,055

7. User Agreements

User rates for the Aviation Division are reviewed semi-annually in consultation with the Authority's independent rate consultants and are set by tariff. Effective August 1, 2016, the Authority adjusted its aviation rates for its General Aviation operations.

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 which expired September 30, 2016. Also see Note 15.

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

In June 2002, the Authority contributed $4.0 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 (VIPFPA), 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 Federal agencies and the Authority is obligated to spend the grant monies in accordance with the regulatory restrictions. These amounts were recorded as state government capital contributions in the Statements of Revenues, Expenses and Changes in Net Position. As of September 30, 2016 and 2015, the Authority has an outstanding receivable balance of $0.1 million from the VIPFA.

9. Related Party Transactions

During the fiscal years ended September 30, 2016 and 2015, another enterprise fund of the Government of the U.S. Virgin Islands charged the Authority approximately $4.7 million and $7.1 million, respectively, for utility services rendered. Charges for such services are recurring and are included in the Authority's operating expenses.

The Authority also entered into a land purchase agreement with another Government entity and paid $0.35 million during the year, which is the final installment of the $0.7 million purchase price.

During fiscal year 2016, the Authority paid to the Department of Planning and Natural Resources (DPNR), an agency of the Government, certain fees for submerged land rentals of approximately $0.4 million. There were no such payments made during fiscal year 2015. Additionally, DPNR paid the Authority $0.5 million for both 2016 and 2015, related to office rental fees.

Further, the Authority has also leased several properties to various additional agencies of the Government and received $0.8 million and $0.6 million in revenue from these units in fiscal years 2016 and 2015, respectively.

10. Net Pension Liability

Effective October 1, 2014, the Authority implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Following is a description of the pension plan and accounting for pension expense, liabilities, and deferred outflows/inflows of resources.

Plan Description and Benefits

Full time employees of the Authority are members of The Employees' Retirement System of the Government of the Virgin Islands (GERS), a cost sharing multi-employer, defined benefit pension plan (the plan) established as of October 1, 1959 Title 3, Chapter 27 of the Virgin Islands Code to provide retirement, death, and disability benefits. Benefits may be extended to beneficiaries of plan members. The plan covers all employees of the Government, including the Authority, except employees compensated on a contract fee basis, casual, per diem or provisional and part time employees who work less than 20 hours per week. Persons over the age of 55 may opt out of the plan by providing formal notification to the plan. Vesting of benefits occurs after 10 years of service. Benefits may be extended to beneficiaries of plan members.

There are two tiers within the plan:

Tier I: Employees hired prior to September 30, 2005
Tier II: Employees hired on or after October 1, 2005

Regular employees who have completed 30 years of credited service or have attained age 60 with at least 10 years of credited service are eligible for a full service retirement annuity. Members who are considered "safety employees" as defined in the Code are eligible for full retirement benefits when they have earned at least 20 years of service or have reached the age of 55 with at least 10 years of credited service. Regular and safety employees who have attained age 50 with at least 10 years of credited service may elect to retire early with a reduced benefit.

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation for Tier I members is determined by averaging the five highest years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during such service. Average compensation for Tier II members is determined by averaging the most recent five years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during the service. The maximum annual salary that can be used in this computation is $65,000, except for senators and judges, whose annual salary is used.

Funding and Contribution Policy

Contributions to GERS are established by the Board of Trustees of GERS. The Government's required employer contribution for Tier I and Tier II members through December 31, 2015, was 20.50% of the member's annual salary.

Effective January 1, 2016, Tier I member contributions increased by 1.0% to 10.0% of annual salary for regular employees. Member contributions will increase an additional 1.0% on January 1, 2017, and January 1, 2018. Effective January 1, 2016, Tier II member contributions increased by 1.0% to 10.5% of annual salary for regular employees, and will increase an additional 1.0% on January 1, 2017, and January 1, 2018.

Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective July 1, 2009, GERS' Board of Trustees approved an effective annual interest rate on refunded contributions of 2.00% per annum.

Both the plan and the Authority have a September fiscal year end. GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this report, the following time frames are used:

September 30,	**2016**	**2015**
Valuation Date	**October 1, 2015**	October 1, 2014
Measurement Date	**September 30, 2015**	September 30, 2014
Measurement Period	**October 1, 2014 - September 30, 2015**	October 1, 2013 – September 30, 2014

The Authority is considered an employer of the plan with a proportionate share of 3.3677% and 3.0233% as of September 30, 2015 and 2014, respectively. The Authority's percentage was determined based on its respective contributions as a percentage of the total contributions to the plan. The Authority's proportionate share of employer contributions recognized by GERS was $2.3 million and $2.1 million for the plan's fiscal year ended September 30, 2015 and 2014, respectively.

Pension Liabilities, Expense, and Deferred Outflows/Inflows of Resources

As of September 30, 2016 and 2015, the actuarial calculated net pension liability for the Authority's proportionate share of the net pension liability of the plan was $137.1 million and $93.3 million, respectively. The net pension liability of the plan is measured as of September 30, 2015 and 2014, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2015 and 2014, respectively. For the measurement date September 30, 2015, there was a change in assumptions for calculating the proportionate share. Actuarially determined proportionate share information from GERS was estimated by management based on an average three year respective share of the Authority's contributions to the plan relative to all contributions to the plan. For the measurement date September 30, 2014, proportionate share information from GERS was estimated by management based on the respective single year contributions.

For the years ended September 30, 2016 and 2015, the Authority recognized pension expense of $12.2 million and $0.5 million, respectively, inclusive of amortization of deferred outflows of pension related items.

Given the limited historical information provided to the Authority by GERS, it was not practical for the Authority to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions in 2015. As such, and consistent with GASB Statement No. 71, the Authority recognized beginning deferred outflows of resources only for its pension contributions made subsequent to the measurement date of the beginning net pension liability but before the start of the plan's fiscal year. No beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions have been recognized.

Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Authority in the computation of the net pension liability for the year ended September 30, 2016:

(In thousands of dollars)	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Changes in assumptions	**$ 25,423**	**$ -**
Net difference between projected and actual earnings on pension plan investments	**2,560**	**-**
Difference between expected and actual experience	**3,482**	**-**
Changes in proportionate share	**8,158**	**1,538**
Contributions made subsequent to measurement date	**2,936**	**-**
	$ 42,559	**$ 1,538**

Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Authority in the computation of the net pension liability for the year ended September 30, 2015:

(In thousands of dollars)	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Changes in assumptions	$ 5,841	$ -
Net difference between projected and actual earnings on pension plan investments	668	-
Difference between expected and actual experience	869	-
Changes in proportionate share	-	513
Contributions made subsequent to measurement date	2,580	-
	$ 9,958	$ 513

Amounts reported as deferred outflows and inflows, exclusive of contributions made after the measurement date, will be recognized in pension expense as follows:

Year ending September 30,	*(In thousands of dollars)*
2017	$ 8,253
2018	8,253
2019	8,253
2020	6,921
2021	6,405

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of the measurement dates at September 30, 2015 and 2014 is provided below, including any assumptions that differ from those used in the corresponding October 1, 2015 and 2014 actuarial valuations. Refer to the October 1, 2015 and 2014 actuarial valuation reports for a complete description of all other assumptions, which can be found on GERS' website.

September 30,	**2015**	2014
Inflation Rate	**2.50%**	2.85%
Salary Increases	**3.25% including inflation**	4.00% including inflation
Actuarial Cost Method	**Entry age normal**	Entry age normal
Expected Rate of Return	**7.00%**	7.50%
Municipal Bond Yield	**3.71%**	4.11%
Discount Rate	**3.84%**	4.42%
Mortality Table	**RP-2014 Blue Collar**	RP-2000 set forward

Investment Rate of Return

The long-term expected rates of return of 7.00% and 7.50% for the years ending 2015 and 2014, respectively, on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation, are summarized as follows as of the measurement date at September 30, 2015:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Domestic equity	28%	6.82%
International equity	10%	8.44%
Fixed income	26%	1.72%
Cash	4%	1.12%
Alternative	32%	6.50%

Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation, are summarized as follows as of the measurement date at September 30, 2014:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	45%	6.99%
International equity	10%	7.49%
Fixed income	40%	2.59%
Alternative	5%	4.29%

Discount Rate

The discount rate used to measure the total pension liability was 3.84% as of the measurement date at September 30, 2015 and 4.42% as of the measurement date at September 30, 2014. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the future increases in the employee contribution rates legislated. Based on those assumptions, the plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.00% was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by projected assets, the yield on a 20-year AA Municipal Bond Index was applied, which was 3.71% and 4.11% as of the measurement date at September 30, 2015 and 2014, respectively.

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability (NPL) for the plan, calculated using the discount rate, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate for the year ended September 30, 2016:

1% Decrease - Share of NPL @ 2.84%	Share of NPL @ 3.84%	1% Increase - Share of NPL @ 4.84%
$ 160,267,665	$ 137,122,496	$ 118,035,501

The following presents the Authority's proportionate share of the net pension liability (NPL) for the plan, calculated using the discount rate, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate for the year ended September 30, 2015:

1.0% Decrease - Share of NPL @ 3.42%	Share of NPL @ 4.42%	1.0% Increase - Share of NPL @ 5.42%
$ 108,331,100	$ 93,299,583	$ 80,590,222

Detailed information about the pension plan's fiduciary net position is available in the separately issued GERS financial report.

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 $100.0 million in liability coverage for airport operators and owners and over $50.0 million for automobile and general liability claims at the marinas and other Authority properties off the airport premises. The Authority also carries a blanket special perils, replacement cost, property insurance policy with a loss limit of $60.0 million, with a sublimit of $40.0 million for flood and earthquake. The property policy is subject to a deductible of $100,000 for all perils except, 5.00% of the total insured value for named windstorm and 2.00% of the insured value for earthquake (capped at various levels). Other sub-limits and deductibles that are part of the Property program vary. 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. There were no such transactions in 2016 and 2015.

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 government 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 showed 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. Operating 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 and commercial and office space within the Crown Bay pier area to outside users as well.

The lease agreements include contracts with non-cancelable terms for both fixed and variable rental charges. The agreements expire at various dates through 2021. During fiscal year 2016 and 2015, the Authority generated revenues of $12.4 million and $12.2 million, respectively, through the leasing arrangements.

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

Year Ending September 30,	
2017	$ 12,324
2018	12,253
2019	12,050
2020	12,295
2021	12,103
	$ 61,025

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 2016 and 2015, the following customers provided more than 10.0% of the respective Division's total operating revenues:

	Division	2016	2015
American Airlines	Aviation	**23.5%**	17.6%
Delta Airlines	Aviation	**10.5%**	10.3%
Royal Caribbean Cruise Line	Marine	**17.1%**	-
Carnival Cruise Line	Marine	**10.1%**	-

15. Subsequent Events

Cruise Ship Agreements

The Authority signed a new berthing agreement with one of the major cruise ship carriers coming to the Territory with a tariff increase effective October 1, 2016, for both the St. Thomas/St. John ports and the St. Croix port.

Additionally, the Authority and the West Indian Company (WICO) signed a single tariff agreement of $13.40 per passenger effective October 1, 2016, for all cruise ship passengers coming to the ports of St. Thomas and St. John.

Management's Evaluation

Management has evaluated any events or transactions occurring after September 30, 2016, the statement of net position date, through June 23, 2017, 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, 2016.

Required
Supplemental Information

Schedule of the Authority's Share of the Net Pension Liability

September 30,	**2016**	2015
Authority's proportion of the net pension liability	**3.3677%**	3.0233%
Authority's proportionate share of the net pension liability	**$ 137,122,496**	$ 93,299,583
Authority's covered-employee payroll	**$ 12,766,325**	$ 11,611,243
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	**1074%**	803%
Plan fiduciary net position as a percentage of the total pension liability	**19.58%**	27.26%

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the measurement date (September 30 of the previous year).

Schedule of the Authority's Contributions

September 30,	**2016**	2015
Actuarially required contributions	**$ 8,323,545**	$ 6,049,315
Contributions in relation to the actuarially required contributions	**2,936,210**	2,580,037
Contribution deficiency (excess)	**$ 5,387,335**	$ 3,469,278
Covered-employee payroll	**$ 13,804,658**	$ 12,766,325
Contributions as a percentage of covered-employee payroll	**21.3**	20.2

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the latest fiscal year.

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, 2016 and 2015
(In thousands of dollars)

	St. Thomas Airport	Special Facilities	St. Croix Airport	2016 Total	2015 Total
Operating revenues					
Users' fees and dues	$ 11,018	$ -	$ 2,954	$ 13,972	$ 13,465
Rentals	4,137	808	1,478	6,423	6,050
Others	3,324	91	863	4,278	4,178
Total operating revenues	18,479	899	5,295	24,673	23,693
Operating expenses					
Payroll, payroll taxes, and fringe benefits	4,441	-	3,818	8,259	5,446
Repairs and maintenance	627	80	818	1,525	1,845
Materials, supplies, and other services	973	35	784	1,792	1,458
Insurance	781	39	371	1,191	1,337
Depreciation	7,437	69	3,201	10,707	10,534
Other operating expenses	2,053	42	1,125	3,220	5,164
General and administrative Allocation	7,332	119	4,548	11,999	8,802
Total operating expenses	23,644	384	14,665	38,693	34,586
Operating (loss) income	(5,165)	515	(9,370)	(14,020)	(10,893)
Non-operating revenues (expenses):					
Passenger facility charges	2,883	-	505	3,388	3,206
Customer facility charges	462	-	-	462	487
Interest income	5	3	-	8	(5)
Insurance recovery	-	-	-	-	-
Investment gain/loss	-	-	-	-	265
Other non-operating expenses	(44)	-	(3)	(47)	(47)
Total non-operating revenues, net	3,306	3	502	3,811	3,906
Change in net position, before capital contributions	(1,859)	518	(8,868)	(10,209)	(6,987)
Federal and state government capital contributions	1,062	-	3,939	5,001	6,554
Change in net position	$ (797)	$ 518	$ (4,929)	$ (5,208)	$ (433)

See accompanying notes to 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 – Marine Division (Unaudited)
Years Ended September 30, 2016 and 2015
(In thousands of dollars)

	St. Thomas	St. Croix	2016 Total	2015 Total
Operating revenues				
Users' fees and dues	$ 13,764	$ 972	$ 14,736	$ 14,456
Wharfage dues	7,399	964	8,363	7,694
Rentals	5,467	551	6,018	6,122
Others	937	69	1,006	1,121
Total operating revenues	27,567	2,556	30,123	29,393
Operating expenses				
Payroll, payroll taxes, and fringe benefits	7,408	2,518	9,926	6,632
Repairs and maintenance	444	130	574	716
Materials, supplies, and other services	1,854	668	2,522	2,882
Insurance	909	347	1,256	1,356
Depreciation	5,102	1,135	6,237	6,078
Other operating expenses	2,422	14	2,436	1,998
General and administrative allocation	8,154	2,163	10,317	6,712
Total operating expenses	26,293	6,975	33,268	26,374
Operating income (loss)	1,274	(4,419)	(3,145)	3,019
Non-operating revenues (expenses):				
Insurance recovery	-	-	-	55
Interest income	245	-	245	201
Financing expenses	(41)	(15)	(56)	(808)
Interest expense	(1,123)	(501)	(1,624)	(1,622)
Other non-operating expenses	(34)	(16)	(50)	(27)
Total non-operating (expenses), net	(953)	(532)	(1,485)	(2,201)
Change in net position	$ 321	$ (4,951)	$ (4,630)	$ 818

See accompanying notes to other financial information (unaudited).

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, 2016 and 2015
(In thousands of dollars)

	2016	2015
Payroll, payroll taxes, and fringe benefits	**$ 18,281**	$ 10,636
Repairs and maintenance	**511**	799
Material, supplies, and other services	**1,789**	2,215
Insurance	**232**	375
Depreciation	**643**	567
Other operating expenses	**828**	901
Non-operating expense	**32**	21
	$ 22,316	$ 15,514
Allocated as follows:		
Aviation	**$ 11,999**	$ 8,802
Marine	**10,317**	6,712
	$ 22,316	$ 15,514

See accompanying notes to other financial information (unaudited).

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, 2016 and 2015
(In thousands of dollars)

	2016	2015
Revenues		
Operating revenues:		
Users' fees and dues	**$ 23,099**	$ 22,150
Rentals	**6,018**	6,122
Others	**1,006**	1,121
Interest income and insurance recovery	**195**	229
Total revenues	**30,318**	29,622
Expenses		
Operating expenses:		
Payroll, payroll taxes, and fringe benefits	**7,101**	6,505
Repairs and maintenance	**574**	716
Materials, supplies, and other services	**2,522**	2,882
Insurance	**1,256**	1,356
Other operating expenses	**2,436**	1,998
General and administrative allocation	**6,934**	6,348
Total expenses	**20,823**	19,805
Net available revenues	**$ 9,495**	$ 9,817

See accompanying notes to other financial information (unaudited).

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 such as pension expense related to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. 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.

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

Schedule of Expenditures of Federal Awards and Reports Required by *Government Auditing Standards* and the Uniform Guidance
Year Ended September 30, 2016

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

Schedule of Expenditures of Federal Awards and Reports Required by *Government Auditing Standards* and the Uniform Guidance

Year Ended September 30, 2016

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

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

To the Governing Board
Virgin Islands Port Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 23, 2017.

Internal Control over Financial Reporting

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

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

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

Finding #	Nature of Finding
2016-001	Lease Agreement(s) Administration
2016-002	Cash Based Revenue

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

Finding #	Nature of Finding
2016-003	User Access and Program Change Management

Compliance and Other Matters

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

The Authority's Responses to Findings

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

Purpose of this Report

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

BDO USA, LLP

June 23, 2017

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

To the Governing Board
Virgin Islands Port Authority

Report on Compliance for Each Major Federal Program

We have audited the Virgin Islands Port Authority's (the Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2016. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The Authority is a component unit of the Government of the U.S. Virgin Islands.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on CFDA 20.106, Airport Improvement Program

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding CFDA 20.106, Airport Improvement Program, as described in finding number 2016-004, for Procurement, Suspension, and Debarment.

Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 20.106, Airport Improvement Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 20.106, Airport Improvement Program for the year ended September 30, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs, and as listed below. Our opinion on the major federal program is not modified with respect to this matter.

Finding #	CFDA #	Program Name	Compliance Requirement
2016-005	20.106	Airport Improvement Program	Reporting

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

Report on Internal Control Over Compliance

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs, and as listed below, to be a material weakness.

Finding #	CFDA #	Program Name	Compliance Requirement
2016-004	20.106	Airport Improvement Program	Procurement, Suspension, and Debarment

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

Finding #	CFDA #	Program Name	Compliance Requirement
2016-005	20.106	Airport Improvement Program	Reporting

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Virgin Islands Port Authority, a component unit of the Government of the U.S. Virgin Islands, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated June 23, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

BDO USA, LLP

June 30, 2017

Schedule of Expenditures of Federal Awards

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

Schedule of Expenditures of Federal Awards

Year ended September 30,				2016
Federal Grantor / Pass-Through Grantor / Program or Cluster Title	*Federal CFDA Number*	*Pass-Through Entity Identifying Number*	*Passed Through to Subrecipients*	*Federal Expenditures*
U.S. Department of Transportation: Federal Aviation Administration Direct Programs				
Airport Improvement Program Cyril E. King Airport	20.106	-	-	$ 667,096
Airport Improvement Program Henry E. Rohlsen Airport	20.106	-	-	3,826,539
Payments for Small Community Air Service Development	20.930	-	-	6,296
Total U.S. Department of Transportation Direct Programs				4,499,931
U.S. Department of Homeland Security: Transportation Security Administration Direct Programs				
National Explosive Detection Canine Team Program Cyril E. King Airport	97.072	-	-	151,500
Law Enforcement Officer Reimbursement Agreement Program Cyril E. King Airport	97.090	-	-	196,745
Law Enforcement Officer Reimbursement Agreement Program Henry E. Rohlsen Airport	97.090	-	-	101,640
Total U.S. Department of Homeland Security Direct Programs				449,885
Total Expenditures of Federal Awards				$ 4,949,816

See accompanying note to the Schedule.

Note to the Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies

Reporting Entity

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Virgin Islands Port Authority (the Authority) under programs of the Federal government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Further, because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Basis of Accounting

Expenditures included in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Authority has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Matching Costs

Matching costs, the nonfederal share of certain program costs, are not included in the Schedule.

Relationship to Federal Financial Reports

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

Schedule of Findings and Questioned Costs

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

Schedule of Findings and Questioned Costs

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	X Yes	___ No
• Significant deficiency(ies) identified?	X Yes	___ None reported
Noncompliance material to financial statements noted?	___ Yes	X No

Federal Awards

Internal control over major federal programs:		
• Material weakness(es) identified?	X Yes	___ No
• Significant deficiency(ies) identified?	X Yes	___ None reported
Type of auditor's report issued on compliance for major federal programs:	Qualified	
Any audit findings disclosed that are required to to be reported in accordance with 2 CFR 200.516(a)?	X Yes	___ No

Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	___ Yes	X No

Section II - Financial Statement Findings

Finding 2016-001: Lease Agreement(s) Administration

The Authority leases properties to outside users which are governed under the terms of a significant number of lease agreements. Leased facilities can include warehouse space, terminal counter space, terminal retail space, commercial space, and office space. We selected a sample of leases for our test work and noted the following:

- Various lease agreements required rental increases every three (3) years, based on the higher of the change in the Consumer Price Index (CPI) or 5%, which had not been implemented by the Authority.
- Several lease agreements noted that the lease should not be renewed after the expiration period; however, the lease had not been terminated or revised accordingly.
- Several occurrences where lease agreements, supporting rental collections recorded in the general ledger, were not available. We understand that the Authority has several leases that have lapsed and are on month-to-month terms; however, in these instances, there were no previous lease agreements available to evidence that the leases had in fact, lapsed and were now operating on a month-to-month basis.
- Instances where lease agreements required a set amount to be deposited with the Authority and the actual amount deposited did not agree to the lease terms.

Given the significant number of leases entered into by the Authority, these issues can result in a loss of control and efficiency. We recommend that the Authority develop a lease rental database application package that would integrate with the general ledger package. This should also serve as the central database of all business documents. A system-generated lease revenue summary should be analyzed and reconciled with the general ledger on a periodic basis. This procedure will help ensure that proper billing and related information is posted to the general ledger and that lease revenues are accurate.

Furthermore, a workable mechanism should be maintained to alert management to important dates that require timely attention, such as renewal clauses, rate changes, option dates, addendum values, and expiration dates.

Views of Responsible Officials and Planned Corrective Actions:

The Authority concurs with the auditor’s findings and recommendations. The planned corrective actions are presented in the Authority’s Corrective Action Plan attached as an Appendix to the Single Audit Report.

Finding 2016-002: Cash Based Revenue

A well-designed system for the revenue cycle is very important for the success of any business enterprise. There must be a process that appropriately bills and collects. Further, a strong revenue cycle contains adequate segregation of duties and overall organization and timing are critically important to its effectiveness.

At present, marine docking, marine pilotage, private yachts/small boat dues, ferry passenger fees, and various marine and aviation parking lot fees are collected by various dock masters and/or other operators in the form of cash. We noted the following:

- The dock masters who are in-charge of billing are also collecting the corresponding fees.

- Information, such as a vessel's specifications (e.g. length, draft, gross tonnage) in the eCollect marine database which is used for billing calculations, is not reviewed on a periodic basis.

Subsequent to year end, we did note that management had worked on and implemented various steps for separating closely related functions in the cash receipts cycle in order to reduce the risk that receipts could be improperly deposited, lost, or misappropriated. We recommend that management continue with and accelerate its effort(s).

Views of Responsible Officials and Planned Corrective Actions:

The Authority concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Authority's Corrective Action Plan attached as an Appendix to the Single Audit Report.

Finding 2016-003: User Access and Program Change Management

Inappropriate or excessive access may result in unauthorized data changes or transactions. As such, user access and administration (user addition, modification, removal) controls should be adhered to in order to ensure that appropriate access is granted and terminated employees are removed in a timely manner.

- A periodic review of user access was not performed to support continuing appropriate rights or to manage the risk of terminated employees retaining access. For terminated employees, among other procedures, there should be a process for immediate deletion of passwords on the network and various applications, as well as passwords for hardware and software. In addition, management may consider a periodic reconciliation of application accounts as compared to active Authority employees.

- We also noted that administrative access rights had been provided to several business users.

At the present time, there are varying degrees of formality of controls over program changes.

- Once changes are developed and tested by the Authority's outside consultant, they are moved to a test environment at the Authority where the enhancements are piloted. Subsequent to a successful pilot effort, the Information Technology (IT) Manager and outside IT consultant collaborate to identify when and how to move the changes to a production environment. All documentation of development and testing is exchanged via email and no ongoing evidence is maintained.

  It is further noted that support for authorizing the move to production is limited to a successful pilot process; it does not consider an analysis of other potential risks.

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

During the fiscal year under audit, management began to address these items and we recommend that management continue with and accelerate its effort(s).

Views of Responsible Officials and Planned Corrective Actions:

The Authority concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Authority's Corrective Action Plan attached as an Appendix to the Single Audit Report.

Section III - Federal Award Findings and Questioned Costs

Finding 2016-004: Procurement, Suspension, and Debarment

Information on Federal Program(s) - U.S. Department of Transportation:
Federal Aviation Administration

Airport Improvement Program
CFDA Number: 20.106

Criteria or Specific Requirement – Certain prescribed requirements dictate that recipients of Federal awards have adequate procedures and controls in place to ensure that practices are properly documented in the entity's files, provide a vendor debarment or suspension certification, provide for retention of files, and that supporting documentation corroborate compliance with these requirements.

Condition – In our review of two (2) procurement transactions meeting the test threshold, the Authority was unable to provide evidence that the suspension and debarment analysis for one (1) of the transactions had been performed before contract activity began. It was noted that the required analysis was performed several months after the contract had been executed.

Questioned Costs – Not applicable.

Context – This is a condition identified per review of the Authority's compliance with specified requirements. We reviewed two (2) procurement files with expenditures totaling $2,223,411, for fiscal year 2016.

Effect – The Authority could inadvertently contract with or make sub-awards to parties that are suspended or debarred from doing business with the Federal government.

Cause – The Authority did not strictly adhere to its policies and procedures.

Identification as a Repeat Finding – Not Applicable.

Recommendation – We recommend that the Authority follow its internal controls to ensure adherence to Federal regulations relating to the procurement of goods and services. There should be timely coordination and communication amongst all departments that are responsible for handling and managing procurement tasks.

Views of Responsible Officials and Planned Corrective Actions - The Authority concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Authority's Corrective Action Plan attached as an Appendix to the Single Audit Report.

Finding 2016-005: Reporting

Information on Federal Program(s) - U.S. Department of Transportation:
Federal Aviation Administration

Airport Improvement Program
CFDA Number: 20.106

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

Condition: For one (1) out of the five (5) sampled reports reviewed, the amounts included did not agree with the underlying accounting records.

Questioned Costs – Not applicable.

Context – This is a condition identified per review of the Authority's compliance with specified requirements. The report was understated by $618,546.

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

Cause – It appears that policies and procedures, including review over reporting procedures were not functioning as intended.

Identification as a Repeat Finding – Not Applicable.

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

Views of Responsible Officials and Planned Corrective Actions - The Authority concurs with the auditor's findings and recommendations. The planned corrective actions are presented in the Authority's Corrective Action Plan attached as an Appendix to the Single Audit Report.

Management's Appendices

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June 30, 2017

BDO USA, LLP
8401 Greensboro Drive, Suite 800
McLean, VA 22102

In connection with the Single Audit of the Virgin Islands Port Authority (the Authority) for the year ended September 30, 2016, transmitted herewith is the Fiscal Year 2016 Status of Prior Audit Findings and a Corrective Action Plan in accordance with 2 CFR §200.511, *Audit Findings Follow-Up*. These schedules provide the status of the *Government Auditing Standards* and the Single Audit findings for fiscal years 2016 and 2015.

The Authority is focused on improving its procedures to ensure that these findings are resolved.

If you have any questions, please contact us.

Mr. David Mapp
Executive Director

Ms. Donna Frett-Gregory
Chief Financial Officer

Ms. Anna Mauricia Penn
Controller

Status of Prior Audit Findings

Finding 2015-001: Reconciliation and Review Processes

Current Status: Corrective action plan was implemented. Finding not repeated in current year.

Finding 2015-002, 2014-002, and 2013-02: Lease Agreement(s) Administration

Current Status: Partially corrected; repeated as finding 2016-001.

Reason for Recurrence: The Authority is focused on improving its procedures. Due to the timing of issuance of prior year reports, there are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The Property Management Division subsequently completed the input of tenant information for the leases under its management into the Lease Management Module (LMM) on December 31, 2016. Property managers are now able to:

- Account for all active, non-active, or month to month arrangements in LMM.
- Reconstitute the data elements underlying each active, non-active, or month to month tenancies in LMM to improve the accuracy of billing and reconciliation to the general ledger.
- Note all dates in each active, non-active, or month-to-month tenancy in LMM and integrate with Microsoft Outlook to automate and ensure timely attention to required lease provisions (i.e. rent changes, option exercise, term expirations, etc.). The Property management division intends to complete implementing the Microsoft Outlook Notice Feature by September 30, 2017.

For the remaining leases, which are managed under the Crown Bay facility, the LMM is currently in the implementation phase with a targeted completion date of December 31, 2017.

Finding 2015-003: Reversionary Property Leases

Current Status: Corrective action plan was implemented. Finding not repeated in current year.

Finding 2015-004, 2014-004, and 2013-04: Cash Based Revenue

Current Status: Partially corrected; repeated as finding 2016-002.

Reason for Recurrence: The Authority is focused on improving its procedures. Due to the timing of issuance of prior year reports, there are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: While we recognize that all our corrective actions were not implemented as of October 1, 2016, the following are mitigating measures which have been executed by the Authority to address this subject:

- As of September 26, 2016, the Authority's Marine Division instituted a policy of periodic audits to ensure the accuracy of vessel specifications in the eCollect system.The Marine Division will continue to perform bi-annual reviews of the marine database to ensure that information utilized is updated and in line with certificates of inspection and/or certificates of registry for billing purposes.
- As of November 1, 2016, the Authority has implemented a no cash policy at all its seaports. Customers are now on account and billed monthly, or they pay at the seaports using a debit card with a VISA logo, a credit card (VISA or MasterCard only) or pay via check. In instances where customers only have cash, they are required to visit the respective Marine Division office to make payment or make payment to the Chief Wharfinger. Repeat customers are required to secure the necessary debit or credit card to make payment or secure customer accounts.
- By October 1, 2017, the Authority's Information Technology (IT) Division will ensure that dock masters cannot make changes to programmed vessel information in the system. Further, the Authority will conduct an external field audit of the revenue collections operations and the eCollect system functionality.

Finding 2015-005, 2014-005, and 2013-05: User Access and Program Change Management

Current Status: Partially corrected; repeated as finding 2016-003.

Reason for Recurrence: The Authority is focused on improving its procedures. Due to the timing of issuance of prior year reports, there are areas that were addressed and other areas that are still in the process of implementing new internal controls and procedures. Further, various employee transition issues have impacted the continued progression towards completed remediation.

Corrective Action Plan: The Authority has implemented or is in the process of implementing measures to address this subject as follows:

- As of June 2016, the IT Division has implemented the change management process document, which requires formal processes to implement program change. Application program changes will be documented with specifics related to change impact and benefits to the Authority. Additionally, the document requires a sign-off from end user departments who are required to participate in pilot testing. Once sign-offs are obtained, the program change can be moved to production.
- In October 2016, the IT Division implemented a software change audit form which captures the details of any software change. This includes the impact of change, budget, and management approval, in addition to the establishment of a project team and team leaders, the responsible person(s), and acceptance of change. This is in addition to a project plan that details the associated tasks of the project. To further enhance the software change process, we will immediately require sign-offs of responsible persons that are associated with the software change audit form.

- In December 2016, the Authority issued a Management of Access and Permissions to Network Domain and a Financial Automated Systems policy. The provisions of Section II (Policies and Procedures) and Section VII (Review and Validation) of this policy addresses this subject. In addition, the Authority's IT Division will conduct periodic reviews of the user access listing and maintain a detailed log of the review(s) performed.
- In addition to the policy mentioned above, any consultants that require administrative accesses will be isolated to local rights to that specific device and for those consultants that provide direct day to day support to users on specific applications that may require administrative access, a spreadsheet will be set up to keep a log of such support. The Information Technology (IT) Division has removed super user access from all users who are not associated with this division.

Finding 2015-006: Data Collection Form and Single Audit Reporting Package

Federal Program: CFDA Number 20.106, Airport Improvement Program

Current Status: Corrective action plan was implemented. Finding not repeated in current year.

Finding 2015-007: Allowable Costs/Cost Principles – Payroll Activities

Federal Program: CFDA Number 20.106, Airport Improvement Program

Current Status: Corrective action plan was implemented. Finding not repeated in current year.

Finding 2015-008: Special Tests and Provisions – Wage Rate Requirements

Federal Program: CFDA Number 20.106, Airport Improvement Program

Current Status: Corrective action plan was implemented. Finding not repeated in current year.

Corrective Action Plan

Page Number	Finding	Responsible Officials	Estimated Completion Date	Corrective Action
12	2016-001	Executive Director, Legal Counsel, Director of Property Management, and the General Manager - Crown Bay Center.	December 31, 2017	The Property Management Division subsequently completed the input of tenant information for the leases under its management into the Lease Management Module (LMM) on December 31, 2016. Property managers are now able to: • Account for all active, non-active, or month to month arrangements in LMM. • Reconstitute the data elements underlying each active, non-active, or month to month tenancies in LMM to improve the accuracy of billing and reconciliation to the general ledger. • Note all dates in each active, non-active, or month-to-month tenancy in LMM and integrate with Microsoft Outlook to automate and ensure timely attention to required lease provisions (i.e. rent changes, option exercise, term expirations, etc.). The Property management division intends to complete implementing the Microsoft Outlook Notice Feature by September 30, 2017. For the remaining leases, which are managed under the Crown Bay facility, the LMM is currently in the implementation phase with a targeted completion date of December 31, 2017.
13	2016-002	Chief Financial Officer, Controller, Marine Managers, and Internal Audit.	Ongoing through October 1, 2017.	While we recognize that all our corrective actions were not implemented as of October 1, 2016, the following are mitigating measures which have been executed by the Authority to address this subject: • As of September 26, 2016, the Authority's Marine Division instituted a policy of periodic audits to ensure the accuracy of vessel specifications in the eCollect system.

Corrective Action Plan

Page Number	Finding	Responsible Officials	Estimated Completion Date	Corrective Action
				The Marine Division will continue to perform bi-annual reviews of the marine database to ensure that information utilized is updated and in line with certificates of inspection and/or certificates of registry for billing purposes. • As of November 1, 2016, the Authority has implemented a no cash policy at all its seaports. Customers are now on account and billed monthly, or they pay at the seaports using a debit card with a VISA logo, a credit card (VISA or MasterCard only) or pay via check. In instances where customers only have cash, they are required to visit the respective Marine Division office to make payment or make payment to the Chief Wharfinger. Repeat customers are required to secure the necessary debit or credit card to make payment or secure customer accounts. • By October 1, 2017, the Authority's Information Technology (IT) Division will ensure that dock masters cannot make changes to programmed vessel information in the system. Further, the Authority will conduct an external field audit of the revenue collections operations and the eCollect system functionality.
14	2016-003	Information Technology Manager.	Immediately	The Authority has implemented or is in the process of implementing measures to address this subject as follows: • As of June 2016, the IT Division has implemented the change management process document, which requires formal processes to implement program change. Application program changes will be documented with specifics related to change impact and benefits to the Authority.

Page Number	Finding	Responsible Officials	Estimated Completion Date	Corrective Action
				Additionally, the document requires a sign-off from end user departments who are required to participate in pilot testing. Once sign-offs are obtained, the program change can be moved to production. • In October 2016, the IT Division implemented a software change audit form which captures the details of any software change. This includes the impact of change, budget, and management approval, in addition to the establishment of a project team and team leaders, the responsible person(s), and acceptance of change. This is in addition to a project plan that details the associated tasks of the project. To further enhance the software change process, we will immediately require sign-offs of responsible persons that are associated with the software change audit form. • In December 2016, the Authority issued a Management of Access and Permissions to Network Domain and a Financial Automated Systems policy. The provisions of Section II (Policies and Procedures) and Section VII (Review and Validation) of this policy addresses this subject. In addition, the Authority's IT Division will conduct periodic reviews of the user access listing and maintain a detailed log of the review(s) performed. • In addition to the policy mentioned above, any consultants that require administrative accesses will be isolated to local rights to that specific device and for those consultants that provide direct day to day support to users on specific applications that may require administrative access, a spreadsheet will be set up to keep a log of such support. The Information Technology (IT) Division has removed super user access from all users who are not associated with this division.

Corrective Action Plan

Page Number	Finding	Responsible Officials	Estimated Completion Date	Corrective Action
15	2016-004	Engineering, Procurement, and Legal Department Managers, including Internal Audit.	Immediately	The Procurement Policy and Procedures (Version 4.0, Revised January 2017) includes a checklist procedure to ensure compliance and timely review of the debarment, suspension, ineligibility, and voluntary exclusion documentation. Additionally, the Authority's Internal Auditor, will conduct periodic reviews to ensure that existing procedures are adhered to. The Contracting and Legal Division will continue to utilize the existing Contract Form Checklist (CFC) to ensure that suspension and disbarment documents are included during the contractual and legal review process. This will allow the Authority to immediately institute corrective action where deficiencies are noted before contract execution.
16	2016-005	Senior Accountant, Controller, and Chief Financial Officer.	Immediately	To prevent such future occurrences, the Controller will ensure the accuracy of reports by reviewing, verifying, and signing off on them prior to submittal.