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, 2014 and 2013

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Contents

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Independent Auditor's Report

To the Governing Board
Virgin Islands Port Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Virgin Islands Port Authority (the Authority), a component unit of the Government of the U.S. Virgin Islands as of September 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Authority and do not purport to, and do not, present fairly the financial position of the Government of the U.S. Virgin Islands, as of September 30, 2014 and 2013, 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.

As further discussed in Note 1, in 2014, the Authority adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The other financial information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by ***Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015, 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 26, 2015

Management's
Discussion and Analysis

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, 2014 and 2013, with selected comparative information for the year ended September 30, 2012. 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 2014 and 2013 are $51.4 million and $47.7 million, respectively. The fluctuation in operating revenues when compared to fiscal year 2013 is an increase of approximately $3.7 million, or 7.8%. The Aviation Division recorded an increase of approximately 5.6% in revenues in 2014 when compared to 2013. Additionally, 2014 marine revenues increased by approximately 9.5% when compared to 2013.

The 2014 increase in revenues under the Aviation Division of 5.6% resulted from an overall increase of 2.8% in passenger activity when compared to 2013; which comprised of an increase of 57,169 passengers at the Cyril E. King Airport Terminal in St. Thomas and a decrease of 7,718 passengers at the Henry E. Rohlsen Airport Terminal in St. Croix. Cyril E. King Airport had a record year with enplanements of approximately 0.7 million and Henry E. Rohlsen Airport is experiencing stabilization after a sharp decrease in 2013 due to the discontinuation of a major airline in March 2013 and effects of the 2012 closing of the Hovensa refinery on St. Croix.

As a result of Cyril E. King Airport's increased passenger traffic, most concessions related to passenger activity were positively affected. Other fees also reflected positive growth of 18.5%, largely attributed to the category of parking fees which saw a 12% increase. Conversely, the category of rentals reflected a slight drop of .5%.

In the Marine Division, overall revenues increased by 9.5% resulting largely from a sharp increase in wharfage dues of 23.5%, largely attributed to the April 2014 marine tariff amendment with respect to inter-island vessels traveling between the U.S. Virgin Islands (USVI) and the British Virgin Islands (BVI) and the October 2013 change in the marine terminal tax legislation which allows the Authority to collect the entire $1.0 of the tax versus the previous 15% allocated to the Authority. The categories of users' fees and dues, rentals and others also showed increases of 4.4%, 6.8%, and 9% respectively.

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

(In thousands of dollars)	**2014**	**2013**	**2012**	**Change 2014**	**Change 2013**
Aviation operating revenues:					
Users' fees and dues	**$ 12,913**	$ 12,292	$ 12,519	$ 621	$ (227)
Rentals	**5,689**	5,717	4,970	(28)	747
Others	**3,854**	3,252	3,890	602	(638)
Total Aviation operating revenues	**22,456**	21,261	21,379	1,195	(118)
Marine operating revenues:					
Users' fees and dues	**14,745**	14,123	14,064	622	59
Wharfage dues	**7,651**	6,194	5,916	1,457	278
Rentals	**5,389**	5,047	4,853	342	194
Others	**1,140**	1,046	1,018	94	28
Total Marine operating revenues	**28,925**	26,410	25,851	2,515	559
Total operating revenues	**$ 51,381**	$ 47,671	$ 47,230	$ 3,710	$ 441

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 (GVI) and Customs (now Custom Border and Protection and referred to as CBP), the latter was authorized to collect the USVI custom duties and the wharfage and tonnage port user fees of the Virgin Islands Port Authority. The MOA required CBP to pay the revenue to the USVI treasury, less CBP's cost of collecting both the custom duties and wharfage and tonnage user fees of VIPA, at which point the GVI charges a 5% administrative fee for processing a check to VIPA.

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

Operating Expenses

Fiscal year 2014 operating expenses for the Virgin Islands Port Authority increased approximately 1.8% in comparison to 10.5% increase in fiscal year 2013. Payroll, taxes and fringe benefits increased by 11.7%. Fiscal year 2014 payroll costs included accruals for increases awarded through contractual agreements to the aviation union dating back to fiscal year 2009 through fiscal year 2014. Repairs and maintenance showed an 18% increase in fiscal year 2014. Insurance, depreciation, and other operating expenses decreased by 1.4%, 5.9%, and 6.6%, respectively.

The Authority continued to pay 100% of medical insurance for all employees during fiscal year 2014. The Authority has negotiated with its unions to share 15% of the medical insurance; this arrangement will commence in fiscal year 2015.

Fiscal year 2013 operating expenses for the Virgin Islands Port Authority increased approximately 10.5% in comparison to a decrease in fiscal year 2012 of approximately 3.7%. Repairs and maintenance and depreciation remained flat in fiscal year 2013. Materials and supplies and other operating expenses increased by 37.9% and 26.9%, respectively.

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

(In thousands of dollars)	**2014**	**2013**	**2012**	**Change 2014**	**Change 2013**
Payroll, payroll taxes and fringe benefits	**$ 22,515**	$ 20,162	$ 18,300	$ 2,353	$ 1,862
Repairs and maintenance	**3,774**	3,199	3,198	575	1
Materials, supplies and other services	**7,323**	7,264	5,269	59	1,995
Insurance	**3,826**	3,879	3,582	(53)	297
Depreciation	**19,239**	20,451	20,444	(1,212)	7
Other operating expenses	**8,430**	9,026	7,114	(596)	1,912
Total operating expenses	**$ 65,107**	$ 63,981	$ 57,907	$ 1,126	$ 6,074

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 $3.2 million of PFC revenues in fiscal year 2014 compared to approximately $3.1 million in fiscal year 2013. This increase is attributed to the increase in passengers for fiscal year 2014.

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. During fiscal year 2014, the Authority collected approximately $0.4 million of CFC revenues.

Capital Contributions

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

In fiscal year 2014, contributions amounted to $12.1 million. Federal contributions from FAA were $7.8 million to enhance security, rehabilitate and evaluate the Cyril E. King Airport and $3.7 million to rehabilitate and inspect the Henry E. Rohlsen Runway. Other federal contributions came from Transportation Security Administration (TSA) of $0.5 million for the security and canine reimbursement program and $0.1 million from SCASP Grant for air service development.

Change in Net Position

Total net position, which represents the excess of assets over liabilities, increased by $1.3 million in 2014 and decreased by $7.4 million in 2013. This change resulted from total operating expenditures of $65.1 million and $64 million, offset by operating revenues of $51.4 million and $47.7 million, net non-operating revenues of $3 million and $2.4 million and capital contributions of $12.1 million and $6.6 million in 2014 and 2013, respectively.

Statements of Net Position

The Statement of Net Position presents the financial position of the Authority at the end of the fiscal year. A summarized comparison of the Authority's assets, liabilities and net position at September 30, 2014, 2013, and 2012 is as follows:

(In thousands of dollars)	**2014**	2013	2012
Assets			
Current assets	**$ 37,973**	$ 39,607	$ 38,694
Noncurrent assets:			
Capital assets, net	**239,866**	232,417	240,402
Other noncurrent assets	**4,320**	4,375	4,414
Total assets	**282,159**	276,399	283,510
Liabilities and Net Position			
Liabilities:			
Current liabilities	**19,758**	13,926	11,301
Noncurrent liabilities	**25,798**	27,165	29,529
Total liabilities	**45,556**	41,091	40,830
Net position:			
Net investment in capital assets	**210,394**	203,161	209,533
Restricted	**10,786**	13,016	10,850
Unrestricted	**15,423**	19,131	22,297
Total net position	**$ 236,603**	$ 235,308	$ 242,680

During fiscal year 2014, the net increase in capital assets amounting to approximately $7.4 million was the net effect of additions and retirement of capital assets amounting to $28 million and $1.4 million, respectively, net of depreciation expense of $19.2 million.

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

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

(In thousands of dollars)	**2014**	**2013**	**2012**
Security Upgrade – TWIC	**-**	$ 1.7 million	-
Baggage Claim Renovations CEKA	**$ 3.2 million**	-	-
Enighed Pond Marine Terminal Building	**-**	-	$ 1.8 million
Rehabilitate General Aviation CEKA	**$ 4.0 million**	-	-
HERA apron rehabilitation	**$ 4.3 million**	-	-
Cyril E. King Baggage Make-up Belt	**-**	-	$ 1.5 million
TSA Office Renovation – HERA	**-**	$ 0.5 million	-
Cyril E. King Runway Roadway Lighting	**$ 4.4 million**	$ 4.9 million	-
HERA Runway Rehabilitation	**-**	-	$ 1.4 million
Rehabilitate Security Fence CEKA	**$ 0.6 million**	-	-
Crown Bay Marina Dredging	**$ 0.5 million**	-	-
Terminal Building Re-Roofing – CEKA	**$ 1.9 million**	$ 1.6 million	-

Capital Financing and Debt Management

The Authority has three bond issues outstanding as of September 30, 2014. They are the 2003 Marine Revenue Series A&B Bonds and the 2003 Marine Revenue Series C Bonds. The Marine Revenue Bonds were used to finance the dredging, rehabilitation and construction of the Crown Bay Pier in St. Thomas and the construction of a mixed used commercial complex at Crown Bay. The Marine Revenue Bonds were issued in a two part series of 2003A (AMT) and 2003B (federally taxable), in principal amounts of $18 million and $17.4 million.

A summary of the Marine Bonds' terms follows:

	Interest Rate
$5,930,000 Series A, due serially from 2015 through 2018	5.25%
$12,075,000 Series A, due serially from 2019 through 2023	5.00%
$6,745,000 Series B, due serially from 2003 through 2008	3.73%
$7,245,000 Series B, due serially from 2009 through 2013	5.08%
$3,435,000 Series B, due serially from 2014 through 2015	5.43%

The aggregate balance as of September 30, 2014 and 2013, for the Marine Revenue Series A&B Bonds is $19.8 million and $21.4 million, respectively.

In October of 2003, the Authority entered into an agreement with Banco Popular de Puerto Rico to finance the Authority's portion of the construction of the Red Hook Terminal, renovation of the Gallows Bay Dock, St. Croix and the dredging of the Crown Bay and Charlotte Amalie Harbor. This bond issuance is labeled as Marine Revenue Series C Bonds (Non-AMT).

The financing for these projects was completed on September 30, 2005, in an amount not to exceed $10.8 million. At the close of fiscal year 2014, the amount outstanding of the Marine Revenue Series C Bonds was $6.3 million.

As of September 30, 2014 and 2013, the total Marine Revenue Bonds outstanding amounted to $26.1 million and $28.3 million, respectively.

As discussed in Note 5 to the financial statements, the bond indentures require a debt service coverage ratio of not less than 125%. This debt service coverage is calculated based on a formula described in Note 5. In fiscal years 2014 and 2013, the Authority complied with the debt service coverage. The following table summarizes the results of such calculation for 2014:

Debt service coverage ratio-required	125%
Fiscal year 2014 debt service coverage ratio	218%
Excess of debt service coverage over bond indentures requirement	93%

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 $196 million in entitlement and discretionary funds combined. A total of $65 million in Entitlement funds and $55 million in Discretionary funds for Cyril E. King Airport, and $55 million in Entitlement funds and $21 million in Discretionary funds for Henry E. Rohlsen Airport have been received.

Economic Factors 2014

In fiscal year 2014, the Virgin Islands Port Authority saw a slight improvement in its overall financial outlook over the previous year. However, the Authority continues to encounter slow financial growth resulting from the economic crises experienced in the Territory and abroad.

The Authority's financial health and outlook are largely dependent on the Territory's air and cruise tourism industry, which, in turn, are significantly correlated to the health and outlook of the U.S. economy – particularly the availability of discretionary income.

World economies in general, are making a slow recovery from the recession which started in 2008. European economic growth is slow; only Germany and England show any type of economic strength. Asia remains an area of growth, but at lower levels than recent years. China remains a strong development area with most other Asian economies continuing their expansion.

With a recovering U.S. economy and the USVI being one of the most desirable vacation destinations in the Caribbean, the general outlook for the Territory's tourism growth remains optimistic.

The long-term forecast is very positive for growth of USVI air and cruise passengers, resulting in the 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. The present realities and outlook for the economic and tourism industry environment, in which the Authority must navigate, will require a continued focus on cost containment and identifying new revenue sources as an integral component of the Authority's sustainability strategy.

Contacting the Authority's Financial Management

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

Financial Statements

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

Statements of Net Position
(In thousands of dollars)

September 30,	**2014**	2013
Assets		
Current assets:		
Cash and cash equivalents (restricted - $6,065 in 2014 and $6,949 in 2013)	**$ 17,437**	$ 25,887
Short-term investments	**9,056**	2,175
Sinking funds (restricted)	**877**	2,224
Accounts receivable (net of allowance for doubtful accounts of $982 in 2014 and $1,576 in 2013)	**3,497**	3,827
Receivables from U.S. Government agencies (net of allowance for doubtful acounts of $100 in 2014 and $0 in 2013)	**2,540**	2,188
Prepaid insurance	**2,295**	2,541
Other current assets	**2,271**	765
Total current assets	**37,973**	39,607
Noncurrent assets:		
Capital assets, net	**239,866**	232,417
Sinking funds (restricted)	**3,845**	3,843
Prepaid bonds insurance	**475**	532
Total noncurrent assets	**244,186**	236,792
Total assets	**$ 282,159**	$ 276,399
Liabilities and net position		
Current liabilites:		
Accounts payable related to capital projects, including retainage on contracts	**$ 1,650**	$ 893
Other accounts payable and accrued liabilities	**13,909**	9,933
Capital lease payable	**900**	-
Compensated absences payable	**913**	846
Bonds payable	**2,386**	2,254
Total current liabilities	**19,758**	13,926
Noncurrent liabilities:		
Capital lease payable	**825**	-
Compensated absences payable	**1,262**	1,056
Bonds payable	**23,711**	26,109
Total liabilites	**45,556**	41,091
Net position:		
Net investment in capital assets	**210,394**	203,161
Restricted	**10,786**	13,016
Unrestricted	**15,423**	19,131
Total net position	**236,603**	235,308
Total liabilities and net position	**$ 282,159**	$ 276,399

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,	**2014**	2013
Operating revenues		
Aviation	**$ 22,456**	$ 21,261
Marine	**28,925**	26,410
Total operating revenues	**51,381**	47,671
Operating expenses		
Payroll, payroll taxes and fringe benefits	**22,515**	20,162
Materials, supplies and other services	**7,323**	7,264
Insurance	**3,826**	3,879
Depreciation	**19,239**	20,451
Repairs and maintenance	**3,774**	3,199
Other operating expenses	**8,430**	9,026
Total operating expenses	**65,107**	63,981
Operating loss	**(13,726)**	(16,310)
Non-operating revenues (expenses)		
Passenger facility charges	**3,242**	3,074
Insurance recovery	**1,135**	779
Customer facility charges	**449**	25
Interest income	**68**	51
Other non-operating revenues	**38**	–
Interest expense	**(1,426)**	(1,552)
Loss from retirement of capital assets	**(441)**	–
Unrealized loss on investment	**(147)**	–
Total non-operating revenues, net	**2,918**	2,377
Change in net position, before capital contributions	**(10,808)**	(13,933)
Federal and state government capital contributions	**12,103**	6,561
Change in net position	**1,295**	(7,372)
Net position, at beginning of year (as restated - Note 1)	**235,308**	242,680
Net position, at end of year	**$ 236,603**	$ 235,308

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,	**2014**	2013
Cash flows from operating activities		
Cash received from customers and others	**$ 52,225**	$ 46,682
Cash paid to suppliers and employees, net of capitalized expenses	**(42,399)**	(38,491)
Net cash provided by operating activities	**9,826**	8,191
Cash flows from investing activities		
Redemption of investments	**(6,883)**	(1,798)
Interest received from investments	**68**	51
Net cash used in investing activities	**(6,815)**	(1,747)
Cash flows from capital and related financing activities		
Acquisition of capital assets	**(25,022)**	(12,735)
Principal payments on bonds payable	**(2,252)**	(4,313)
Principal payments on capital lease payable	**(575)**	–
Interest paid	**(1,436)**	(1,565)
Cash received from U.S. Government agencies and local government	**11,651**	5,530
Passenger facility charges	**3,242**	3,074
Proceeds from insurance recovery	**1,135**	779
Customer facility charges	**449**	25
Net cash used in capital and related financing activities	**(12,808)**	(9,205)
Net change in cash and cash equivalents	**(9,797)**	(2,761)
Cash and cash equivalents, at beginning of year	**28,111**	30,872
Cash and cash equivalents, at end of year	**$ 18,314**	$ 28,111
Cash and cash equivalents		
Unrestricted and restriced cash and cash equivalents	**$ 17,437**	$ 25,887
Cash and cash equivalents restricted in sinking funds	**877**	2,224
	$ 18,314	$ 28,111

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,	**2014**	2013
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	**$ (13,726)**	$ (16,310)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	**19,239**	20,451
Deferred charges write-off	**950**	1,055
(Reversal of) provision for doubtful accounts	**(414)**	159
Prepaid supplies write-off	**25**	132
Prepaid bonds insurance amortization	**57**	57
Premium amortization	**(14)**	(15)
Change in assets and liabilities:		
Accounts receivable	**844**	(989)
Prepaid insurance	**246**	(86)
Other current assets	**(1,640)**	(79)
Accounts payable and other accrued liabilities	**3,986**	3,733
Compensated absences payable	**273**	83
Total adjustments	**23,552**	24,501
Net cash provided by operating activities	**$ 9,826**	$ 8,191
Supplemental schedule of noncash investing, capital and related financing activities		
Property acquired through capital lease	**$ 2,300**	$ –

See accompanying notes to the financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

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

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

Basis of Accounting

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

Basic Financial Statements

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

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

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

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

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for fees, dues and rent on each air and marine terminal.

Operating expenses for the Authority include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Cash and Cash Equivalents

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

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

Short-term Investments

Short-term investments, which consist of non-negotiable certificates of deposits and other highly liquid investments such as U.S. Government and agency securities with a maturity of greater than three months but less than one year when purchased, are carried at amortized cost, which approximates fair value due to their short-term maturities.

Sinking Funds

The Authority maintains amounts deposited in sinking funds that are restricted for specific uses in accordance with the corresponding bond indentures (see Note 5), mainly for construction and maintenance of airports and marine facilities. The bond indentures also require the Authority to maintain certain balances to cover the bonds' debt service reserves. The Authority is not permitted to use these funds for any other purpose.

Accounts Receivable

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

Capital Assets

Land transferred from the Federal Government or from the Government of the U.S. Virgin Islands is carried at the Government's original cost if the information is available; if not, it is carried at amounts estimated by management to approximate cost at the time the properties were acquired by the U.S. Virgin Islands from the Federal Government. Depreciable assets transferred at inception by the Government of the U.S. Virgin Islands are carried at amounts estimated based on total capital expenditures incurred by predecessor agencies.

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

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

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

When assets are retired, the cost and related accumulated depreciation of the asset is removed from the accounts and any gain or loss is recognized as non-operating revenue or expense. Expenditures for major renewals and betterments are capitalized, while maintenance and repairs, which do not extend the life of the assets, are recorded as expenses. During fiscal year 2014, the Authority incurred a non-operating expense of $0.4 million 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 2014 and 2013, no interest expense was capitalized.

Bond Issue Premium

Bond 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.

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.

Pension Plan

The Authority follows the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. Under this statement, the pension expense is equal to the statutory required contribution to the plan. Also see Note 9.

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 2014, the Authority implemented GASB No. 65, *Items Previously Reported as Assets and Liabilities*. One of the effects of GASB No. 65 was to change the reporting for debt issuance costs. In prior years, costs of debt issuances were amortized over the term of the related debt. GASB No. 65 requires the costs be recorded as an expense in the fiscal year during which the debt was issued. The adoption of GASB No. 65 resulted in a $378 thousand restatement of the September 30, 2012 net position which was previously reported as $243.1 million. The adoption of GASB 65 also included a $42 thousand adjustment to decrease 2013 interest expense. The restated net asset balance as of October 1, 2012 is $242.7 million and the balance sheets no longer reflect any debt issuance costs.

The GASB has also issued Statement No. 68, *Accounting and Financial Reporting for Pensions* in June 2012 that is effective for financial statements for periods beginning after June 15, 2014. The objective of this statement is to improve the information provided in government financial reports about pension benefits provided to employees. The Authority is currently evaluating the impact of the adoption of this statement on its 2015 financial statements.

2. Deposits

Deposits, segregated by category, are as follows at September 30, 2014:

(In thousands of dollars)	**Cash Deposits**	**Certificates of Deposits**	**Total**
Cash and cash equivalents	**$ 16,933**	**$ 504**	**$ 17,437**
Short-term investments	**-**	**9,056**	**9,056**
Sinking funds (restricted)	**4,722**	**-**	**4,722**
	$ 21,655	**$ 9,560**	**$ 31,215**

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

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

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, 2014 and 2013, the Authority held $32.5 million and $33.4 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, 2014, approximately $12.2 million or 39.1% of the Authority's deposits were held at Banco Popular de Puerto Rico. As of September 30, 2013, approximately $20.9 million or 61.2% of the Authority's deposits were held at Banco Popular de Puerto Rico.

3. Sinking Funds

Deposits in the reserve accounts at September 30, 2014, were as follows:

(In thousands of dollars)	**2003 Marine Revenue Series A&B Bonds**	**2003 Marine Revenue Series C Bonds**	**Total**
Debt service reserve	**$ 3,845**	**$ 864**	**$ 4,709**
Construction	**9**	**3**	**12**
Operating maintenance renewal and replacement funds	**-**	**1**	**1**
	$ 3,854	**$ 868**	**$ 4,722**

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

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

4. Capital Assets

Capital assets as of September 30, 2014, are comprised as follows:

(In thousands of dollars)	Beginning Balance	Increase	Decrease	Transfers	Ending Balance
Non-depreciable assets:					
Land	$ 20,696	$ 3,001	$ -	$ -	$ 23,697
Construction in progress	10,844	22,284	-	(6,696)	26,432
Total non-depreciable assets	31,540	25,285	-	(6,696)	50,129
Depreciable assets:					
Buildings and structures	316,087	112	(134)	4,938	321,003
Runaways, aprons and pavings	149,647	-	(96)	818	150,369
Equipment	38,576	2,661	(5,922)	(10)	35,305
Land and harbor improvements	27,769	30	-	-	27,799
Total depreciable assets	532,079	2,803	(6,152)	(5,746)	534,476
Accumulated depreciation for:					
Buildings and structures	(172,813)	(9,429)	131	-	(182,111)
Runaways, aprons and pavings	(115,591)	(5,544)	96	-	(121,039)
Equipment	(20,360)	(2,734)	5,475	-	(17,619)
Land and harbor improvements	(22,438)	(1,532)	-	-	(23,970)
Total accumulated depreciation	(331,202)	(19,239)	5,702	-	(344,739)
Total capital assets, net	$ 232,417	$ 8,849	$ (450)	$ (950)	$ 239,866

The Authority has active construction projects as of September 30, 2014. The projects include improvements to runways and aprons, buildings, structures, roads and equipment. At fiscal year end, the Authority had an estimated $11.4 million in contractual commitments for these construction projects.

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

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

5. Long-term Liabilities

Revenue Bonds

On January 16, 2003, the Authority issued Marine Revenue Bonds Series 2003A (AMT) and 2003B (federally taxable), with principal amounting to approximately $18 million and $17.4 million, respectively. The Authority used the proceeds of the bonds to finance dredging, rehabilitation and construction of berthing piers for cruise and seagoing vessels at Crown Bay in St. Thomas, and the construction of a mixed used commercial facility.

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

At September 30, 2014 and 2013, bonds payable consist of:

(In thousands of dollars)	**2014**	**2013**
Marine Division:		
2003 Marine Revenue Bonds, $18,005 Series A; due serially from September 1, 2015 through September 1, 2023, bearing interest ranging from 5.00% to 5.25%	**$ 18,005**	$ 18,005
2003 Marine Revenue Bonds, $17,425 Series B; due serially through September 1, 2015, bearing interest ranging from 3.73% to 5.43%	**1,755**	3,435
2003 Marine Revenue Draw Bonds, up to $10,750 Series C; due serially through September 1, 2023, bearing interest of 4.40%	**6,278**	6,850
	26,038	28,290
Debt premium	**59**	73
Less current portion of long-term debt	**(2,386)**	(2,254)
	$ 23,711	$ 26,109

The aggregate debt service requirements of bonds payable, in thousands of dollars, at September 30, 2014, follow:

Years	Principal	Interest	Total
2015	$ 2,374	$ 1,256	$ 3,630
2016	2,496	1,133	3,629
2017	2,618	1,006	3,624
2018	2,758	872	3,630
2019 through 2023	15,792	2,169	17,961
Total	$ 26,038	$ 6,436	$ 32,474

The Marine Revenue Bonds do not constitute general obligations of the Government of the U.S. Virgin Islands or the United States of America. Neither the credit of the Government of the U.S. Virgin Islands nor that of its political subdivisions is pledged or available for the payment of principal or interest on the bonds. The Marine Revenue Bonds represent a special limited obligation of the Authority and are payable and secured solely by a pledge of the Authority's net marine revenues, the Authority's right to receive net marine revenues and additional funds and accounts, as defined in the bonds' indentures.

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

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

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. Further, in 2014, the Authority paid $.6 million with the balance payable in installments over 24 months.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2014, follows:

(In thousands of dollars)	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**	**Due Within One Year**
2003 Marine Revenue Bonds Series A	**$ 18,005**	**$ -**	**$ -**	**$ 18,005**	**$ 20**
2003 Marine Revenue Bonds Series B	**3,435**	**-**	**(1,680)**	**1,755**	**1,755**
2003 Marine Revenue Bonds Series C	**6,850**	**-**	**(572)**	**6,278**	**599**
Premium and debt issue costs	**73**	**-**	**(14)**	**59**	**12**
Capital lease payable	**-**	**2,300**	**(575)**	**1,725**	**900**
Compensated absences payable	**1,902**	**1,386**	**(1,113)**	**2,175**	**913**
Total	**$ 30,265**	**$ 3,686**	**$ (3,954)**	**$ 29,997**	**$ 4,199**

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

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

6. User Agreements

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

User rates for the Marine Division are set by tariff, except for Holland and Princess cruise lines which operate under separate Cruise Ship Berth and Terminal User Agreements. Effective April 23, 2014, the Authority amended its Marine tariff to institute an increase in ship dues and wharfage from $.85 to $2 and $1 to $3, respectively.

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

In June 2002, the Authority contributed $4 million to the Government of the U.S. Virgin Islands. The Authority agreed to make such contribution to receive in return $18.5 million from the Virgin Islands Public Finance Authority, another component unit of the Government of the U.S. Virgin Islands, in future years. The funds to be received will be used in the development of two capital projects of the Marine Division. The Authority will receive the funds on a reimbursement basis as allowable costs are incurred. In order to be entitled to receive such funds, the projects must meet the requirements of the federal agencies and the Authority is obligated to spend the grant monies in accordance with the regulatory restrictions.

In 2013, the Authority received approximately $.1 million from the Virgin Islands Public Finance Authority to develop the capital projects. These amounts were recorded as state government capital contributions in the Statements of Revenues, Expenses and Changes in Net Position. There were no such amounts received in 2014.

8. Related Party Transactions

During the fiscal years ended September 30, 2014 and 2013, another enterprise fund of the Government of the U.S. Virgin Islands charged the Authority approximately $8.3 million and $7.6 million, respectively, for utility services rendered. Charges for such services are recurring and are included in the Authority's operating expenses.

During fiscal year 2014 and 2013, the Authority paid to the Department of Planning and Natural Resources (DPNR), an agency of the Government of the U.S. Virgin Islands, certain fees for submerged land rentals of approximately $.3 million. Additionally, DPNR paid the Authority $.5 million, for both 2014 and 2013, related to office rental fees.

The Authority also entered into a land purchase agreement with another Government entity and paid $.35 million of the $.7 million purchase price. The remaining unpaid amount is reflected in payables as of year-end.

Further, the Authority has also leased several properties to various additional agencies of the Government of the U.S. Virgin Islands and received $.6 million and $.5 million in revenue from these units in fiscal years 2014 and 2013, respectively.

9. Pension Plan

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

GERS provides for retirement, death and disability benefits for employees and their dependents. The Administrator for the GERS is responsible for its proper operation, subject to orders, resolutions and directives of a Board of Trustees. The governor of the U.S. Virgin Islands, with the approval of the Legislature, could change the required contributions from the employers and employees.

Although the Government has not expressed any intent to terminate the Plan, it may do so at any time. In the event of termination of the Plan, the rights of all affected participants and beneficiaries to whom benefits have accrued under the Plan shall be non-forfeitable to the extent funded.

Government and members contributions are set by statute. The Government's required contribution remained the same as fiscal year 2008 at the contribution rate of 17.5% and required member contributions remained unchanged at 8% of the annual salary for Tier 1 regular employees entering service on or before September 30, 2005 and 8.5% for Tier 2 regular employees entering service on or after October 1, 2005, 9% for senators and 10% or 10.5% for certain employees covered by Act 5226 based on the date they entered service. The Government's contributions, together with the members' contributions and the income of the System should theoretically be sufficient to provide adequate actuarially determined reserves to cover the payment of the annuities and benefits provided by the System. The latest actuarial valuation indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the cost of the System on an actuarial reserve, as required by law. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained from the System's Administrator.

The Authority made contributions to GERS of approximately $2.3 million, $2.0 million, and $2.0 million for the years ended September 30, 2014, 2013 and 2012, respectively.

GERS has proposed contribution changes to the Retirement System which will affect the Authority and its employees in fiscal year 2015 and beyond. Effective January 1, 2015, the contribution rate will increase by 1% each year for three years for Tier 1 regular employees and Class 3 hazardous duty employees. For Tier 2 employee, the contribution rate will increase by 1% each year for three years beginning February 5, 2015. Further, it is expected that the employer's contribution rate will increase from 17.5% to 20.5%, effective January 1, 2015.

10. Risk Management

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

Claims expenditures and liabilities are recorded when it is probable that a loss has occurred in excess of insured amounts and the amount of that loss can be reasonably estimated. The Authority suffered a loss of $2.1 million due to a fire at one of its properties in fiscal year 2013, of which $1.1 million and $0.8 million was recovered in fiscal year 2014 and 2013, respectively, via insurance proceeds in accordance with the final settlement.

11. Contingencies

Litigation

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

Grant Funds

In connection with federal and state governments grant programs, the Authority is obligated to administer and spend the grant monies in accordance with regulatory restrictions, and is subject to audit by the grantor agencies. In cases of non-compliance, the agencies involved may require the Authority to refund program monies. Management believes these non-compliance instances, if any, should not materially affect the Authority's financial position.

St. Croix Municipal Landfill at Estate Anguilla

The Federal Aviation Administration (FAA) conducted an onsite wildlife evaluation of the landfill, airport and surrounding area of the Anguilla Landfill at St. Croix. The landfill, that is adjacent to the St. Croix airport (Henry E. Rohlsen), caused environmental and navigational problems to the airport. The landfill attracts flocks of birds and there have been plane crashes elsewhere when birds have flown into jet engines. The FAA was threatening to force the Authority, to repay $9.3 million in grants previously awarded and to refuse further grants for the airport unless the Authority and the Government show rapid progress toward closing the landfill. The matter was mitigated in fiscal year 2013 and the Authority is eligible for all grants.

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

12. 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, commercial and office space within the Crown Bay pier area to outside users as well.

The lease agreements at September 30, 2014 and 2013, include contracts with non-cancelable terms for both fixed and variable rental charges. The agreements expire at various dates through 2019. During fiscal year 2014 and 2013, the Authority generated revenues of $11.1 million and $10.8 million, respectively, through the leasing arrangements.

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

Year Ending September 30,	
2015	$ 12,273
2016	12,431
2017	12,606
2018	12,569
2019	11,904
	$ 61,783

13. 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 2014 and 2013, the following customers provided more than 10% of the Aviation and Marine Divisions' total operating revenues:

	Division	**2014**	**2013**
American Airlines	Aviation	**14.3%**	18.0%
Carnival Cruise Line	Marine	**13.3%**	14.2%
Royal Caribbean Cruise Line	Marine	**18.2%**	21.6%

14. Subsequent Events

Bonds Issuance

In October 2014, the Authority issued $48.6 million in bonds which comprised of $28.8 million in 2014A Marine Revenue and Refunding Bonds, $14.9 million in 2014B Marine Revenue and Refunding Bonds and $4.9 million in 2014C Marine Revenue Bonds. The proceeds of the 2014 Bonds, together with certain other available funds of the Authority, will be used for: (i) refunding $24.5 million in 2003 Series A Marine Revenue bonds and pay off the 2003 Series bonds; (ii) for the financing of various capital projects; (iii) to fund a deposit to the debt service fund; (iv) to fund a deposit to the operation, maintenance, renewal and replacement reserve account; and (v) to pay the cost of issuance of the 2014 Bonds.

Management's Evaluation

Management has evaluated any events or transactions occurring after September 30, 2014, the statement of net position date through June 26, 2015, 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, 2014.

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, 2014 and 2013
(In thousands of dollars)

	St. Thomas Airport	Special Facilities	St. Croix Airport	2014 Total	2013 Total
Operating revenues					
Users' fees and dues	$ 10,332	$ -	$ 2,581	$ 12,913	$ 12,292
Rentals	4,031	601	1,057	5,689	5,717
Others	2,853	279	722	3,854	3,252
Total operating revenues	17,216	880	4,360	22,456	21,261
Operating expenses					
Payroll, payroll taxes and fringe benefits	3,247	-	2,647	5,894	5,446
Repairs and maintenance	1,168	184	881	2,233	1,939
Materials, supplies and other services	1,597	35	750	2,382	2,399
Insurance	1,127	21	563	1,711	1,796
Depreciation	6,913	59	4,102	11,074	12,499
Other operating expenses	3,141	(17)	1,937	5,061	5,251
General and administrative allocation	5,631	92	3,563	9,286	8,081
Total operating expenses	22,824	374	14,443	37,641	37,411
Operating (loss) income	(5,608)	506	(10,083)	(15,185)	(16,150)
Non-operating revenues (expenses):					
Passenger facility charges	2,728	-	514	3,242	3,074
Customer facility charges	449	-	-	449	25
Interest income	20	5	-	25	12
Insurance recovery	-	-	-	-	-
Investment gain/loss	(61)	-	(48)	(109)	-
Interest expense	(34)	-	(3)	(37)	(38)
Total non-operating revenues, net	3,102	5	463	3,570	3,073
Change in net position, before capital contributions	(2,506)	511	(9,620)	(11,615)	(13,077)
Federal and state government capital contributions	8,219	-	3,884	12,103	5,379
Change in net position	$ 5,713	$ 511	$ (5,736)	$ 488	$ (7,698)

See accompanying notes to other financial information.

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

Schedule of Revenues and Expenses – Marine Division (Unaudited)
Years Ended September 30, 2014 and 2013
(In thousands of dollars)

	St. Thomas	St. Croix	2014 Total	2013 Total
Operating revenues				
Users' fees and dues	$ 13,952	$ 793	$ 14,745	$ 14,123
Wharfage dues	6,810	841	7,651	6,194
Rentals	4,862	527	5,389	5,047
Others	1,079	61	1,140	1,046
Total operating revenues	26,703	2,222	28,925	26,410
Operating expenses				
Payroll, payroll taxes and fringe benefits	4,476	1,498	5,974	5,949
Repairs and maintenance	523	161	684	678
Materials, supplies and other services	2,011	535	2,546	2,366
Insurance	1,315	523	1,838	1,864
Depreciation	5,503	2,187	7,690	7,535
Other operating expenses	2,232	69	2,301	2,460
General and administrative Allocation	5,260	1,629	6,889	5,746
Total operating expenses	21,320	6,602	27,922	26,598
Operating income (loss)	5,383	(4,380)	1,003	(188)
Non-operating revenues (expenses):				
Insurance recovery	1,135	-	1,135	779
Interest income	43	-	43	39
Interest expense	(1,374)	-	(1,374)	(1,486)
Total non-operating (expenses), net	(196)	-	(196)	(668)
Change in net position, before capital contributions	5,187	(4,380)	807	(856)
Federal and state government capital contributions	-	-	-	1,182
Change in net position	$ 5,187	$ (4,380)	$ 807	$ 326

See accompanying notes to other financial information.

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

Schedule of General and Administrative Expenses (Unaudited)
Years Ended September 30, 2014 and 2013
(In thousands of dollars)

	2014	2013
Payroll, payroll taxes and fringe benefits	**$ 10,647**	$ 8,767
Repairs and maintenance	**857**	582
Material, supplies and other services	**2,395**	2,499
Insurance	**277**	219
Depreciation	**475**	417
Other operating expenses	**1,068**	1,315
Non-operating expense	**456**	28
	$ 16,175	$ 13,827
Allocated as follows:		
Aviation	**$ 9,286**	$ 8,081
Marine	**6,889**	5,746
	$ 16,175	$ 13,827

See accompanying notes to other financial information.

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

Schedule of Net Available Revenues for the Marine Division (Unaudited)
Years Ended September 30, 2014 and 2013
(In thousands of dollars)

	2014	2013
Revenues		
Operating revenues:		
Users' fees and dues	**$ 22,396**	$ 20,317
Rentals	**5,389**	5,047
Others	**1,140**	1,046
Interest income and insurance recovery	**1,178**	818
Total revenues	**30,103**	27,228
Expenses		
Operating expenses:		
Payroll, payroll taxes and fringe benefits	**5,974**	5,949
Repairs and maintenance	**684**	678
Materials, supplies and other services	**2,546**	2,366
Insurance	**1,838**	1,864
Other operating expenses	**2,301**	2,460
General and administrative allocation	**6,889**	5,746
Total expenses	**20,232**	19,063
Net available revenues	**$ 9,871**	$ 8,165

See accompanying notes to other financial information.

1. Description of Schedules

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

The Schedule of Net Available Revenues for the Marine Division, as defined in the bonds' indentures, excludes all depreciation and certain non-cash charges. This schedule also excludes Passenger Facility Charges revenue and government grants, which are not available for payment of debt service because they are restricted for the construction of certain capital projects approved by the Federal and local governments.

2. General and Administrative Expenses

For purposes of this presentation and consistent with the Authority's financial practices, an allocation of general and administrative expenses is made to each of the divisions. Such expenses include operating expenses such as depreciation, maintenance and others, net of non-operating revenues or expenses, related to administrative divisions. These allocations are calculated on the basis of total operating expenses between the Marine and Aviation divisions.