Management's Discussion and Analysis, Financial Statements (with Independent Auditor's Report Thereon) and Other Financial Information (Unaudited) Years Ended September 30, 2017 and 2016



Management's Discussion and Analysis, Financial Statements (with Independent Auditor's Report Thereon) and Other Financial Information (Unaudited) Years Ended September 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, and the respective 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 5 through 13 and 41 through 42 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 basic 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 Financial 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 September 30, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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.

BDD USA, LLP

September 30, 2019

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, 2017 and 2016, with selected comparative information for the year ended September 30, 2015. 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.

Economic Factors 2017

The Authority's primary economic driver is the tourism industry of the U.S. Virgin Islands. Most of the Authority's revenues are derived from air and ship-owning firms transporting arriving visitors throughout its facilities.

In fiscal year 2017, the Authority experienced a major impact to its upward growth trend when the Territory was hit by two major category 5 hurricanes (Irma and Maria). The Authority suffered significant damages to its port facilities, as documented by engineering and insurance adjusters. The damage and closure of the ports hindered the pace of evacuation efforts and delayed the delivery of supplies for emergency relief. Inter-island and domestic travel stopped, thereby hindering business continuity. The closures brought tourism, the Territory's largest industry, to a complete halt and this industry is still depressed due to loss of hotel rooms from the storms.

Even though the tourism product of the U.S. Virgin Islands was severely impacted, the ability of the Territory, with Federal aid, to reopen our seaports and airports quicker than our surrounding neighbors mitigated the severity of the impact from the hurricanes. Passenger and cargo traffic to the Territory were accommodated within a three-week period.

The Authority's 2017 fiscal year ended with a decrease in air and sea arrivals but overall, the Authority's revenues remained steady as the storms hit during the last month of the fiscal year. The Authority continues to take steps to preserve its financial health following the storms by hardening its structures, implementing redundancies, and building resiliency in operations. The impact of the hurricanes will be felt in fiscal years going forward as recovery continues. Fortunately, the Authority's insurance program included mitigation measures for such an event.

Management's Discussion and Analysis

Collaboratively, working with our insurance adjusters, we quickly received stabilizing insurance proceed advances to shore up operations. The Authority, as the gateway to the U.S. Virgin Islands, has put its focus on rebuilding and servicing the islands through its facilities.

Going forward, the effects of the storms will have a downturn on the U.S. Virgin Islands' tourism economy, but the economy will recover slowly and surely. In the Territory's fiscal year 2020 Executive Budget, the Virgin Islands Office of Management and Budget indicates that the pace of economic activity in the U.S. Virgin Islands was projected to grow in 2018 and 2019; however, Hurricanes Irma and Maria (2017) disrupted the emerging growth and contributed to a significantly weakened economy. However, several factors have emerged which are counteracting this turn of events including the growth in investment spending by both private and public sectors, Government infrastructure investment, the reopening of the oil storage terminal on St. Croix, construction spending by the Territorial government, and increased Federal government disaster assistance funding. All these factors continue to contribute to the Territory's economic growth.

In summary, the long-term forecast for the Authority is optimistic. While lower traffic levels will strain net revenues going forward for fiscal year 2018 and the immediate future years, the Authority expects financial performance to improve as traffic volume returns. This is a time for the U.S. Virgin Islands to reinvent itself and use the storm recovery period as a source of economic activity. Forecasting trends show that four key areas will contribute to continued economic growth: (i) consumer spending; (ii) re-construction activities; (iii) improved business investment; and (iv) increased Government expenditures.

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 2017 and 2016 are \$54.3 million and \$54.8 million, respectively. The fluctuation in operating revenues when compared to fiscal year 2016 is a decrease of approximately 1%. The Aviation Division recorded a decrease of approximately 0.1% in revenues in 2017 when compared to 2016. Additionally, 2017 marine revenues decreased by approximately 1.4% when compared to 2016. The hurricanes of 2017, Irma and Maria, which hit the Territory in September of 2017 impacted the Authority in the last month of our fiscal year and ended what was shaping up to be a great year. The adverse effect on revenue in 2017 is not as evident but the impact on 2018 is estimated to be significant.

The 2017 decrease in revenues under the Aviation Division of 0.1% resulted from an overall decrease of 3.3% in passenger activity when compared to 2016; which comprised of a decrease of 32,341 passengers at the Cyril E. King Airport Terminal in St. Thomas and a decrease of 393 passengers at the Henry E. Rohlsen Airport in St. Croix. Enplanements at both airports decreased with enplanements of 0.95 million and 0.97 million for fiscal years 2017 and 2016, respectively.

Management's Discussion and Analysis

In addition, the Aviation Division user's fees and dues indicated a 2.2% increase even after the hurricanes due to implemented increases to the General Aviation rates related to landing fees, contributing a \$0.5 million increase in revenues over last year. The 2.5% and 3.9% decrease in rental revenues and other aviation revenue categories, respectively, were directly attributed to the rent and concession rebates granted to aviation customers amounting to \$0.1 million, as a result of the hurricanes.

In the Marine Division, overall revenues decreased by 1.4%. The decrease in users' fees and dues of 4% was attributed to the loss of revenue with the closure of the ports after the hurricanes and the special agreement of a one-year transfer of the \$1.00 increase in port dues to The West Indian Company Limited (WICO), another component unit of the Government. The loss in this category was mitigated by the return of port dues collections in St. Croix. The wharfage dues showed an increase of 11% due to the expiration of the special cruise agreement with Princess and Holland cruise lines along with an increase of \$1.00 in cruise ship wharfage dues in the St. Thomas district and the return of wharfage dues collections in the St. Croix district. Similar to the Aviation division, the 8.3% decrease in the rental revenues is attributed to \$0.3M of rent rebates granted to customers as a result of the hurricanes. The 26% decrease in the other revenue category is attributed to the closure of the Redhook parking lot due to the construction of the new parking terminal.

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.

Management's Discussion and Analysis

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

(In thousands of dollars)	2017	2016	2015	Change 2017	Change 2016
A 1-11					
Aviation operating revenues:					
Users' fees and dues	\$ 14,279	\$ 13,972	\$ 13,465	\$ 307	\$ 507
Rentals	6,264	6,423	6,050	(159)	373
Others	4,109	4,278	4,178	(169)	100
	•			` '	
Total Aviation operating revenues	24,652	24,673	23,693	(21)	980
Marine operating revenues:					
Users' fees and dues	14,146	14,736	14,456	(590)	280
Wharfage dues	9,285	8,363	7,694	922	669
Rentals	5,517	6,018	6,122	(501)	(104)
Others	745	1,006	1,121	(261)	(115)
Total Marine operating revenues	29,693	30,123	29,393	(430)	730
Total operating revenues	\$ 54,345	\$ 54,796	\$ 53,086	\$ (451)	\$ 1,710

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 revenue when and if received.

Management's Discussion and Analysis

Operating Expenses

Fiscal year 2017 operating expenses for the Virgin Islands Port Authority increased approximately 8.6% in comparison to an 18.0% increase in fiscal year 2016. Payroll, payroll taxes, and fringe benefits increased by 5.6% mainly due to \$1.9 million of medical insurance contributions paid by employees expensed back to the employer's medical expense based on an arbitrator's ruling. Materials and supplies and insurance decreased by 9% and 4.2%, respectively; these aforementioned decreases were offset by an increase in repairs and maintenance of 4.5%, depreciation expense of 19.7%, and other operating expenses of 18.9%.

Fiscal year 2016 operating expenses 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 and GASB Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73, 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%.

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

(In thousands of dollars)	2017	2016	2015	Change 2017	Change 2016
Payroll, payroll taxes, and fringe					
benefits	\$ 38,515	\$ 36,466	\$ 22,714	\$ 2,049	\$ 13,752
Repairs and maintenance	2,728	2,610	3,360	118	(750)
Materials, supplies, and other					
services	5,555	6,103	6,555	(548)	(452)
Insurance	2,567	2,679	3,068	(112)	(389)
Depreciation	21,049	17,587	17,179	3,462	408
Other operating expenses	7,707	6,484	8,063	1,223	(1,579)
				_	
Total operating expenses	\$ 78,121	\$ 71,929	\$ 60,939	\$ 6,192	\$ 10,990

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 \$2.8 million, \$3.4 million, and \$3.2 million of PFC revenues in fiscal years 2017, 2016, and 2015, respectively.

Management's Discussion and Analysis

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 each of the fiscal years ended in 2017, 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 2017, contributions amounted to \$9.9 million. Federal contributions from the FAA were \$1.3 million to enhance security, rehabilitate and evaluate the Cyril E. King Airport, acquire an Aircraft, Rescue, and Firefighting (ARFF) vehicle, and \$8.0 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 the TSA of \$0.4 million for the security and canine reimbursement program. Local contributions related to a port security grant amounted to \$0.2 million.

In fiscal year 2016, contributions amounted to \$5.0 million. Federal contributions from the 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 the TSA of \$0.5 million for the security and canine reimbursement program.

Change in Net Position

Total net position decreased by \$40.9 million and \$9.8 million in 2017 and 2016, respectively. This change resulted from total operating expenditures of \$78.1 million and \$71.9 million, offset by operating revenues of \$54.3 million and \$54.8 million, net non-operating revenues of \$1.9 million and \$2.3 million, special item related to net impairment loss on capital assets of \$28.9 million in 2017, and capital contributions of \$9.9 million and \$5.0 million in 2017 and 2016, respectively.

Management's Discussion and Analysis

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, 2017, 2016, and 2015 is as follows:

(In thousands of dollars)	2017	2016	2015
Assets Current assets	\$ 67,092	\$ 61,376	\$ 58,961
Noncurrent assets: Capital assets, net Other noncurrent assets	207,151 3,836	236,968 3,831	240,108 3,828
Total assets	278,079	302,175	302,897
Deferred outflows of resources	49,175	42,882	10,327
Liabilities Current liabilities Noncurrent liabilities	23,283 199,817	15,699 184,007	15,277 143,783
Total liabilities	223,100	199,706	159,060
Deferred inflows of resources	1,206	1,538	513
Net position Net investment in capital assets Restricted Unrestricted (deficit)	188,121 31,341 (116,514)	214,411 36,222 (106,820)	215,841 36,872 (99,062)
Total net position	\$ 102,948	\$ 143,813	\$ 153,651

During fiscal year 2017, the net decrease in capital assets amounting to approximately \$29.8 million was the net effect of additions, retirements, and impairment of capital assets amounting to \$24.1 million, \$0.4 million and \$32.5 million, respectively, net of depreciation expense of \$21.0 million.

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.

Management's Discussion and Analysis

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

(In thousands of dollars)	2017	2016	2015
Apron Rehabilitation - HERA	\$ 0.6 million	\$ 2.7 million	\$ 1.4 million
Aircraft Rescue Firefighting Station - HERA	\$ 5.2 million	\$ 2.1 million	-
Dredging - Crown Bay Marina	\$ 0.3 million	\$ 1.6 million	\$ 4.8 million
Runway and Taxiway Rehabilitation - HERA	\$ 3.3 million	-	-
Crown Bay Pier Extension	\$ 2.5 million	-	-
Electrical Room Upgrade - CEKA	\$ 4.3 million	-	-
Red Hook Parking Lot Construction	\$ 1.7 million	-	-
Taxiway Rehabilitation - CEKA	\$ 1.2 million	-	-
Baggage Claim Renovations - PFC	\$ 0.8 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
Baggage Claim Renovations - CEKA	-	-	\$ 1.6 million
Aircraft Rescue & Fire Fighting Vehicle	-	<u>-</u>	\$ 0.9 million

Capital Financing and Debt Management

The Authority has three bond issues outstanding as of September 30, 2017. 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.

Management's Discussion and Analysis

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, 2017 and 2016 is \$42.2 million and \$44.5 million, respectively.

As discussed in Note 7 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 7. In fiscal years 2017 and 2016, the Authority complied with the debt service coverage. The following table summarizes the results of such calculation for 2017:

Debt service coverage ratio-required Fiscal year 2017 debt service coverage ratio	125% 240%
Excess of debt service coverage over bond indentures requirement	115%

Contingencies

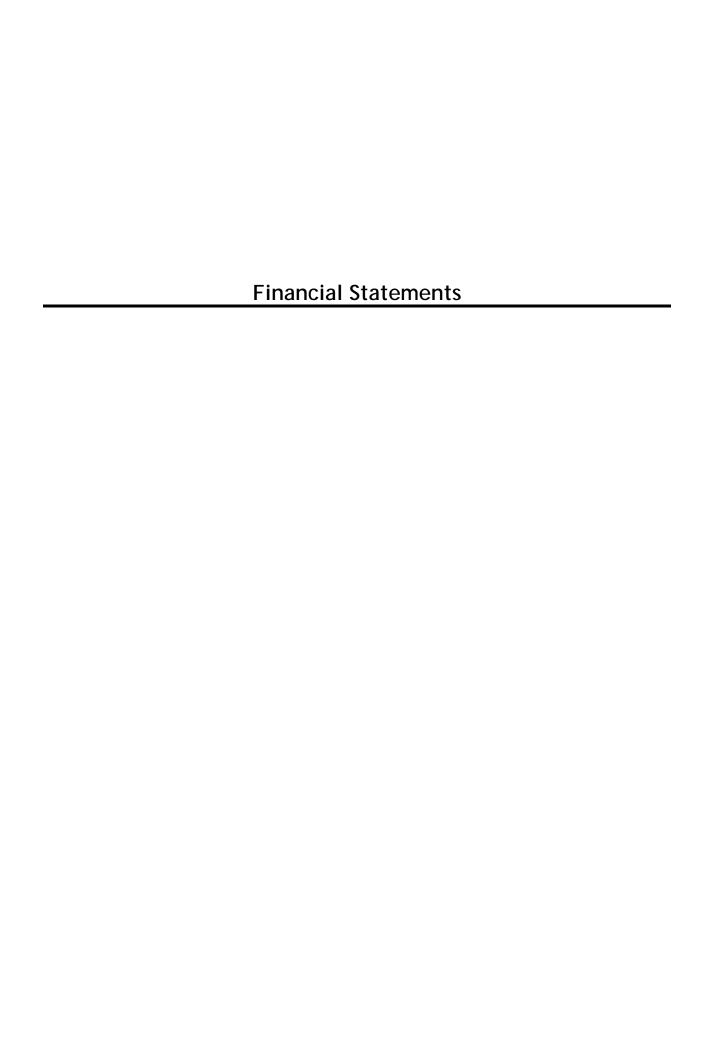
St. Croix Municipal Landfill at Estate Anguilla

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 \$216 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 \$64.0 million in Entitlement funds and \$23.0 million in Discretionary funds for Henry E. Rohlsen Airport have been received.

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, Virgin Islands Port Authority, P.O. Box 301707, St. Thomas, V.I. 00803.



Statements of Net Position

(In thousands of dollars)

September 30,		2017		2016
_ ·		2017		2010
Assets				
Current assets: Cash and cash equivalents (restricted - \$10,622 in 2017				
and \$10,543 in 2016)	\$	30,988	\$	19,643
Short-term investments	Ψ	11,384	Ψ	11,327
Sinking funds (restricted)		16,905		21,848
Accounts receivable (net of allowance for doubtful		.0,,00		2.70.0
accounts of \$3,284 in 2017 and \$1,587 in 2016)		3,160		3,938
Receivables from U.S. Government agencies (net of allowance		2,216		2,095
for doubtful accounts of \$100 in 2017 and 2016)				
Prepaid insurance		1,024		1,059
Other current assets		1,415		1,466
Total current assets		67,092		61,376
Noncurrent assets:				
Capital assets, net		207,151		236,968
Sinking funds (restricted)		3,236		3,231
Long-term investment		600		600
Total noncurrent assets		210,987		240,799
Total assets	\$	278,079	\$	302,175
Deferred outflows of resources				
Deferred charge on debt refunding	\$	276	\$	323
Pension related outflows		48,899		42,559
Total deferred outflows of resources	\$	49,175	\$	42,882
Liabilities				
Current liabilites:				
Accounts payable related to capital projects, including retainage on contracts	\$	1,397	\$	421
Other accounts payable and accrued liabilities	Ψ	15,934	Ψ	10,369
Unearned revenues		1,000		-
Compensated absences payable		1,006		973
Note payable		873		912
Bonds payable		3,073		3,024
Total current liabilities		23,283		15,699
Noncurrent liabilities:				
Compensated absences payable		1,376		1,529
Bonds payable		42,283		45,356
Net pension liability		156,158		137,122
Total noncurrent liabilities		199,817		184,007
Total liabilites	\$	223,100	\$	199,706
Deferred inflows of resources				
Pension related inflows	\$	1,206	\$	1,538
Net position:				
Net investment in capital assets	\$	188,121	\$	214,411
Restricted		31,341		36,222
Unrestricted (deficit)		(116,514)		(106,820)
Net position	\$	102,948	\$	143,813

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

Years Ended September 30,	2017		2016
Operating revenues			
Aviation	\$ 24,652	\$	24,673
Marine	29,693	Ψ	30,123
Marino	27,070		00,120
Total operating revenues	54,345		54,796
Operating expenses			
Payroll, payroll taxes, and fringe benefits	38,515		36,466
Depreciation	21,049		17,587
Materials, supplies, and other services	5,555		6,103
Insurance	2,567		2,679
Repairs and maintenance	2,728		2,610
Other operating expenses	7,707		6,484
Total operating expenses	78,121		71,929
Operating loss	(23,776)		(17,133)
Non-operating revenues (expenses)			
Passenger facility charges	2,840		3,388
Customer facility charges	485		462
Interest income	297		253
Interest expense	(1,656)		(1,689)
Financing expenses	(83)		(73)
Other non-operating expenses	(32)		(47)
Total non-operating revenues, net	1,851		2,294
Total non-operating revenues, net	1,001		2,271
Change in net position, before capital contributions and special item	(21,925)		(14,839)
Federal and state government capital contributions	9,944		5,001
Impairment loss on capital assets, net	(28,884)		-
· · · · · · · · · · · · · · · · · · ·			
Change in net position	(40,865)		(9,838)
Net position, at beginning of year	143,813		153,651
Net position, at end of year	\$ 102,948	\$	143,813

Statements of Cash Flows

(In thousands of dollars)

(in theusands of dentals)				
Years Ended September 30,		2017		2016
Cash flows from operating activities				
Cash received from customers and others	\$	53,283	\$	53,212
Cash paid to suppliers and employees, net of capitalized expenses		(41,841)		(40,539)
Net cash provided by operating activities		11,442		12,673
Cash flows from investing activities				
Purchase of investments		(94)		(719)
Interest received from investments		297		253
Net cash provided by (used in) investing activities		203		(466)
Cash flows from capital and related financing activities				
Acquisition of capital assets		(18,631)		(15,296)
Proceeds from note payable		2,455		2,512
Principal payments on bonds payable		(2,330)		(2,220)
Principal payments on note payable		(2,494)		(2,232)
Principal payments on capital lease payable		_		(825)
Interest paid		(2,359)		(2,457)
Financing expenses paid		(36)		(27)
Cash received from U.S. Government and				
local government agencies		10,823		6,089
Passenger facility charges		2,840		3,388
Customer facility charges		485		462
Proceeds from insurance recovery		4,004		3
Net cash used in capital and related financing activities		(5,243)		(10,603)
Net change in cash and cash equivalents		6,402		1,604
Cash and cash equivalents, at beginning of year		41,491		39,887
Cash and cash equivalents, at end of year	\$	47,893	\$	41,491
Cach and each equivalents				
Cash and cash equivalents Unrestricted and restricted each and cash equivalents	\$	30,988	¢	10 6/12
Unrestricted and restricted cash and cash equivalents Cash and cash equivalents restricted in sinking funds	Ф		\$	19,643
Cash and Cash equivalents restricted in shiking funds		10,700		21,040
	\$	47,893	\$	41,491
Cash and cash equivalents restricted in sinking funds	\$	16,905 47,893	\$	21,8 ⁴

Statements of Cash Flows (continued)

(In thousands of dollars)

Years Ended September 30,	2017	2016
Reconciliation of operating loss to net cash		
provided by operating activities		
Operating loss	\$ (23,776)	\$ (17,133)
Adjustments to reconcile operating loss to net cash		
provided by operating activities:		
Depreciation	21,049	17,587
Deferred charges write-off	· -	302
Provision for doubtful accounts	1,840	747
Prepaid supplies write-off	-	75
Change in assets and liabilities:		
Accounts receivable	(1,062)	(1,584)
Prepaid insurance	35	82
Other current assets	51	(553)
Deferred outflows of resources - pension related	(6,340)	(32,601)
Accounts payable and other accrued liabilities	1,061	756
Compensated absences payable	(120)	147
Net pension liability	19,036	43,823
Deferred inflows of resources - pension related	(332)	1,025
Total adjustments	35,218	29,806
Net cash provided by operating activities	\$ 11,442	\$ 12,673
Name and a satisfact		
Noncash capital activities		
Impairment loss on capital assets	\$ 32,888	\$ -

Notes to 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.

Notes to Financial Statements

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 may 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 long-term 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 7), 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.

Notes to Financial Statements

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 2017, the Authority incurred an expense of \$0.4 million due to retirement of certain assets. No assets were retired during fiscal year 2016.

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 2017 and 2016, no interest expense was capitalized.

The Authority reviews the carrying value of its capital assets to determine if circumstances exist indicating impairment. If facts or circumstances support the possibility of impairment, management follows the guidance in GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. If impairment is indicated, an adjustment is made to the carrying value of the capital assets. Also see Note 5.

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.

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.

Notes to Financial Statements

Bond Issuance and Refunding

Bonds and notes premiums and discounts are deferred and amortized over the life of the debt using the effective interest method and 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

For purposes of measuring the net pension liability, deferred outflows and inflows 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 11.

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.

Notes to Financial Statements

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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 December 2015, GASB issued Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pensions Plans, which amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meets certain criteria. The requirements of this Statement are effective for the Authority's financial statements for the year ended September 30, 2017. The Authority has evaluated this Statement and has determined there is no impact on the financial statements as its pension plan qualifies under GASB Statement No. 68 as disclosed within Note 11.

In April 2016, GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding presentation of payroll-related measures in the required supplementary information; selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for the Authority's financial statements for the year ended September 30, 2017. The Authority has evaluated this Statement and has determined there is no impact on the financial statements.

Notes to Financial Statements

2. Natural Disasters - Hurricanes Irma and Maria

On September 6 and 19, 2017, the United States Virgin Islands were struck by two Category 5 hurricanes. The extent and severity of the storms was unprecedented and resulted in catastrophic damage to the Territory.

Most of the Authority's facilities are located on or near the coastline of the islands and as a result were subjected to the direct force of Category 5 winds, rains, and seawater. The Authority suffered losses to buildings, terminals, cruise ports, ferry and cargo facilities, and other commercial properties.

The Cyril E. King Airport was the most damaged facility. Despite the damages, the Authority reopened the airport to limited commercial traffic on September 28, 2017, which enabled emergency personnel and supplies to arrive into the Territory. The Authority insures all of its properties and was able to secure advance funding for some of the needed repairs. The Authority received \$4.0 million in insurance recoveries in fiscal year 2017.

On or about September 7 and 20, 2017, the President of the United States declared the United States Virgin Islands a disaster area and eligible for Federal Emergency Management Agency (FEMA) recovery assistance. As such, to further aid with storm related losses caused by the hurricanes, reimbursement of expenditures will be secured through Federal assistance and other contributions. Also see Note 16.

3. Deposits

Deposits, segregated by category, are as follows at September 30, 2017:

	Certificates			
(In thousands of dollars)	Cash Deposits	of Deposits	Total	
Cash and cash equivalents	\$ 29,987	\$ 1,001	\$ 30,988	
Investments	-	11,984	11,984	
Sinking funds (restricted)	20,141	-	20,141	
	\$ 50,128	\$ 12,985	\$ 63,113	

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

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

Notes to Financial Statements

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, 2017 and 2016, the Authority held \$63.0 million and \$58.0 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, 2017, approximately \$29.8 million or 46.5% of the Authority's deposits were held at Banco Popular. As of September 30, 2016, approximately \$25.1 million or 42.7% of the Authority's deposits were held at US Bank.

Fair Value Measurements

Fair value is defined by GASB Statement No. 72, Fair Value Measurement and Application, 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 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, 2017 and 2016, the Authority's investments include non-negotiable certificates of deposits, which are not subject to the fair value hierarchy.

4. Sinking Funds

Deposits in the reserve accounts at September 30, 2017, were as follows:

(In thousands of dollars)	2014 Marine Revenue Series A,B & C Bonds
Construction	\$ 16,458
Debt service reserve	3,236
Cost of issuance	5
Interest	442
	\$ 20,141

Notes to Financial Statements

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

(In thousands of dollars)	2014 Marine Revenue Series A,B & C Bonds
	A 04 007
Construction	\$ 21,837
Debt service reserve	3,231
Cost of issuance	5
Interest	6
	\$ 25.079

5. Capital Assets

Capital assets as of September 30, 2017, are comprised as follows:

(In thousands of dollars)	Beginning Balance	Increase	Transfers	Impairment/ Disposals	Ending Balance
Non-depreciable assets: Land	\$ 23,772	\$ -	\$ - (11,072)	\$ -	\$ 23,772
Construction in progress	22,618	23,564	(11,072)	(364)	34,746
Total non-depreciable assets	46,390	23,564	(11,072)	(364)	58,518
Depreciable assets: Buildings and structures Runaways, aprons, and pavings Equipment Land and harbor improvements	326,687 170,961 39,261 30,863	- - 556	3,269 3,773 4,030	(57,350) (334) (9,535) (547)	272,606 174,400 34,312 30,316
Total depreciable assets	567,772	556	11,072	(67,766)	511,634
Accumulated depreciation for: Buildings and structures Runaways, aprons, and pavings Equipment Land and harbor improvements	(198,558) (131,087) (21,373) (26,176)	(10,045) (6,694) (3,397) (913)	- - - -	30,003 81 4,964 194	(178,600) (137,700) (19,806) (26,895)
Total accumulated depreciation	(377,194)	(21,049)	-	35,242	(363,001)
Total capital assets being depreciated, net	190,578	(20,493)	11,072	(32,524)	148,633
Total capital assets, net	\$ 236,968	\$ 3,071	\$ -	\$ (32,888)	\$ 207,151

Notes to Financial Statements

The Authority has active construction projects as of September 30, 2017. The projects include improvements to runways and aprons, buildings, structures, roads and equipment. At fiscal year end, the Authority had an estimated \$21.0 million in contractual commitments for these construction projects.

As indicated earlier, the Authority was impacted by Hurricanes Irma and Maria and certain assets sustained physical damage, were destroyed, and other assets required considerable effort to restore their service utility.

The Authority evaluated its capital assets in accordance with GASB Statement No. 42 and realized a loss from impairment of \$32.9 million. The amount of the impairment loss for damaged capital assets is based on calculations using a combination of the restoration cost approach and the physical verification approach. Under the restoration cost approach, the amount of impairment is derived from the estimated costs to restore the utility of the capital asset. The estimated restoration cost can be converted to historical cost either by restating the estimated restoration cost using an appropriate cost index or by applying a ratio of the estimated restoration cost over estimated replacement cost to the carrying value of the capital asset. The Authority also conducted physical inspections of its assets to determine and estimate the extent of the damages. Assets fully depreciated prior to the hurricanes would have an impairment loss of \$0, regardless of the damage.

Actual repairs to damaged capital assets are expected to far exceed the calculated impairment losses. Insurance recoveries amounting to \$4.0 million have been used to offset the impairment loss, in accordance with the guidelines of GASB Statement No. 42, resulting in a net loss of \$28.9 million. The impairment loss, net of insurance recoveries received during the year, is reported as a special item in the accompanying Statements of Revenues, Expenses, and Changes in the Net Position.

Notes to Financial Statements

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

(In thousands of dollars)	Beginning Balance	Increase	Transfers	Impairment/ Disposals	Ending Balance
Non-depreciable assets:	.				± 00 770
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 dangasiable assets	F42 120	1 100	22 45/		F/7 770
Total depreciable assets	543,128	1,188	23,456	-	567,772
Accumulated depreciation for:					
Accumulated depreciation for: Buildings and structures	(190,315)	(8,243)			(198,558)
Runaways, aprons, and pavings	(126,065)	(5,022)	-	-	(131,087)
Equipment	(120,003)	(3,139)	-	-	(21,373)
Land and harbor improvements	(24,993)	(1,183)	-	-	(26,176)
Land and harbor improvements	(24,773)	(1,103)			(20,170)
Total accumulated depreciation	(359,607)	(17,587)	-	-	(377,194)
Total capital assets being depreciated, net	183,521	(16,399)	23,456		190,578
Total capital assets, net	\$ 240,108	\$ (2,838)	\$ (302)	\$ -	\$ 236,968

6. Note Payable

In April 2017, the Authority obtained a short-term note for \$1.8 million with interest at a 3.18% annual rate. This note has a 9-month maturity and is due in January 2018. This note was used to finance the Authority's insurance premiums. The outstanding balance of \$0.9 million as of September 30, 2017, was paid off in December 2017.

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. Additionally, in November 2016, the Authority obtained a short-term note for \$0.7 million with interest at a 2.73% annual rate. This note has a 9-month maturity and was used to finance the Authority's insurance premiums. This note was paid off in August 2017.

Notes to Financial Statements

7. 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, 2017 and 2016, bonds payable consist of:

(In thousands of dollars)	2017	2016
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%	\$ 24,925	\$ 26,740
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%	13,365	13,880
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
	42,210	44,540
Debt premium	3,146	3,840
Less current portion of long-term debt	(3,073)	(3,024)
	\$ 42,283	\$ 45,356

Notes to Financial Statements

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
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	2,980	1,584	4,564
2023 through 2044	28,690	12,629	41,319
	\$ 42,210	\$ 21,896	\$ 64,106

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.

As a result of the disruption to the Authority's operations from Hurricanes Irma and Maria, for fiscal year 2017, the Authority did not comply with the requirement to issue the audited financial statements within 270 days after year-end. However, as per the Authority's bonds' indentures, this noncompliance event does not constitute an event of default. The Authority filed the required failure to file notice to the Repository before the annual filing date.

Notes to Financial Statements

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2017, follows:

(In thousands of dollars)	Beginning Balance	Increa	ases	Decreases	Ending Balance	Due Within One Year
2014 Marine Revenue						
Bonds Series A	\$ 26,740	\$	-	\$ (1,815)	\$ 24,925	\$ 1,900
2014 Marine Revenue						
Bonds Series B	13,880		-	(515)	13,365	545
2014 Marine Revenue						
Bonds Series C	3,920		-	-	3,920	-
Debt premium	3,840		-	(694)	3,146	628
Compensated absences						
_ payable	2,502		853	(973)	2,382	1,006
	\$ 50,882	\$	853	\$ (3,997)	\$ 47,738	\$ 4,079

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
	\$ 54,539	\$ 1,247	\$ (4,904)	\$ 50,882	\$ 3,997

8. 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. The Authority is currently working towards a new Use and Lease agreement with its major airline customers.

The Authority and 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. Additionally, 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.

Notes to Financial Statements

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

In June 2002, the Authority contributed \$4.0 million to the Government. 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, 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, 2017 and 2016, the Authority has an outstanding receivable balance of \$0.1 million from the VIPFA.

In 2017, the Authority received \$1.0 million from the Government's St. Croix Capital Improvement Fund to be used as matching funds to acquire federal funds under the Transportation Investment Generating Economic Recovery Grant Award (TIGER) for the St. Croix Molasses Pier Enhancement Project (the Project). As of September 30, 2017, the Authority has not yet started the Project. Hence, the amounts received are reflected as unearned revenues in the accompanying Statements of Net Position.

10. Related Party Transactions

During the fiscal years ended September 30, 2017 and 2016, another enterprise fund of the Government of the U.S. Virgin Islands charged the Authority approximately \$5.1 million and \$4.7 million, respectively, for utility services rendered. Charges for such services are recurring and are included in the Authority's operating expenses. In addition, the enterprise fund paid the Authority \$0.3 million and \$0.4 million for 2017 and 2016, respectively, related to office rental fees.

The Authority also entered into a land purchase agreement with another Government entity and paid \$0.35 million during 2016, which was the final installment of the \$0.7 million purchase price.

During fiscal years 2017 and 2016, the Authority paid to the Department of Planning and Natural Resources (DPNR), an agency of the Government, certain fees for submerged land rentals and permits of approximately \$0.1 million and \$0.4 million, respectively. Additionally, DPNR paid the Authority \$0.5 million for both 2017 and 2016, related to office rental fees.

Effective October 1, 2016, the Authority agreed to provide a \$1.00 share from the uniform tariff of \$13.40 to WICO, for a term of one year. In 2017, the Authority paid \$0.9 million and \$0.1 million to WICO for the tariff share and for the repositioning of ships, respectively.

Further, the Authority has also leased several properties to various additional agencies of the Government and received \$0.6 million and \$0.8 million in revenue from these units in fiscal years 2017 and 2016, respectively.

Notes to Financial Statements

11. Pension Plan

As required, the Authority follows 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 and GASB Statement No. 82, Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73. 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 Government of the Virgin Islands Employees' Retirement System (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.

GERS is a separate and independent agency that is included for financial reporting purposes as a blended pension trust fund of the Government. GERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Employees' Retirement System of the Government of the Virgin Islands, 3438 Kronprindsens Gade, St. Thomas, Virgin Islands 00802.

Notes to Financial Statements

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 effective January 1, 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,	2017	2016
Valuation Date	October 1, 2016	October 1, 2015
Measurement Date	September 30, 2016	September 30, 2015
Measurement Period	October 1, 2015- September 30, 2016	October 1, 2014 - September 30, 2015

The Authority is considered an employer of the plan with a proportionate share of 3.3752% as of September 30, 2017, which was an increase of 0.0075% from its proportionate share measured at September 30, 2016. At September 30, 2016, the Authority's proportionate share was 3.3677%, which was an increase of 0.3444% from its proportionate share measured as of September 30, 2015. 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 \$2.5 million and \$2.3 million for the plan's fiscal year ended September 30, 2017 and 2016, respectively.

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

As of September 30, 2017 and 2016, the actuarial calculated net pension liability for the Authority's proportionate share of the net pension liability of the plan was \$156.2 million and \$137.1 million, respectively. The net pension liability of the plan is measured as of September 30, 2016 and 2015, 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, 2016 and 2015, respectively.

Notes to Financial Statements

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 four-year respective share of the Authority's contributions to the plan relative to all contributions to the plan. Previously, proportionate share information from GERS was estimated by management based on the respective single year contributions at the measurement date.

For the years ended September 30, 2017 and 2016, the Authority recognized pension expense of \$12.4 million and \$12.2 million, respectively, inclusive of amortization of deferred outflows and deferred inflows of pension related items.

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, 2017:

(In thousands of dollars)	Deferred Outflows of Resources	Deferred Inflows of Resources	
Changes in assumptions	\$ 32,213	\$ -	
Net difference between projected and			
actual earnings on pension plan investments	1,879	181	
Difference between expected and actual experience	4,913	-	
Changes in proportionate share	7,006	1,025	
Contributions made subsequent to measurement date	2,888		
	\$ 48,899	\$ 1,206	

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 Deferred In of Resources of Resour	
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

Notes to Financial Statements

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)
2018	\$ 8,947
2019	11,835
2020	9,312
2021	8,691
2022	3,010
Thereafter	3,010
	\$ 44,805

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, 2016 and 2015 is provided below, including any assumptions that differ from those used in the corresponding October 1, 2016 and 2015 actuarial valuations. Refer to the October 1, 2016 and 2015 actuarial valuation reports for a complete description of all other assumptions, which can be found on GERS' website.

September 30,	2016	2015
Inflation Rate	2.50%	2.50%
Salary Increases	3.25% including inflation	3.25% including inflation
Actuarial Cost Method	Entry age normal	Entry age normal
Expected Rate of Return	7.00%	7.00%
Municipal Bond Yield	3.06%	3.71%
Discount Rate	3.20%	3.84%
Mortality Table	RP-2014 Blue Collar	RP-2014 Blue Collar

The demographic assumptions for the 2016 and 2015 actuarial valuations are based on the results of an actuarial experience study for the period October 1, 2011 through September 30, 2015.

Investment Rate of Return

The long-term expected rates of return of 7.00% for the years ending 2016 and 2015, 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.

Notes to Financial Statements

Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation, as of the measurement date at September 30, 2016, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	29%	6.59%
International equity	12%	8.29%
Fixed income	27%	1.59%
Cash	2%	0.99%
Alternative	30%	5.50%
	100%	

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

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%		
	100%			

Discount Rate

The discount rate used to measure the total pension liability was 3.20% as of the measurement date at September 30, 2016 and 3.84% as of the measurement date at September 30, 2015. 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 3.06% and 3.71% as of the measurement date at September 30, 2016 and 2015, respectively.

Notes to Financial Statements

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, 2017:

1% Decrease -		1% Increase -
Share of	Share of	Share of
NPL @ 2.20%	NPL @ 3.20%	NPL @ 4.20%
\$ 182,611,264	\$ 156,157,881	\$ 134,454,669

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, 2016:

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

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

12. 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. There were no significant reductions in insurance coverage from prior years.

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. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past fiscal years. However, for the year ended September 30, 2017, the Authority remains in negotiation with insurance companies regarding claims filed resulting from the damages caused by Hurricanes Irma and Maria.

Notes to Financial Statements

13. 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.

14. 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 2022. During fiscal year 2017 and 2016, the Authority generated revenues of \$11.8 million and \$12.4 million, respectively, through the leasing arrangements. Revenue for 2017 has been impacted by rent abatements in the amount of \$0.4 million provided to tenants as a result of damages incurred from Hurricanes Irma and Maria.

Notes to Financial Statements

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,	
2018	\$ 11,106
2019	10,808
2020	11,145
2021	11,019
2022	10,753

\$ 54,831

15. 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 2017 and 2016, the following customers provided more than 10.0% of the respective Division's total operating revenues:

	Division	2017	2016
American Airlines	Aviation	22.2%	23.5%
Delta Airlines	Aviation	11.2%	10.5%
Royal Caribbean Cruise Line	Marine	23.6%	17.1%
Carnival Cruise Line	Marine	9.4%	10.1%

16. Subsequent Events

Natural Disasters - Hurricanes Irma and Maria

The Authority is making significant progress towards restoring its facilities which were damaged by Hurricanes Irma and Maria in September 2017. Rebuilding the Authority's air and seaports has taken precedence over other activities and the Authority continues to tabulate the associated costs and expenses with respect to remediation, clean-up, mitigation, and the restoration of services.

- The Henry E. Rohlsen Airport in St. Croix reopened to commercial traffic on October 5, 2017, and overall flights to the Territory have been steadily increasing.
- The first ship to the St. Thomas ports since the storms was welcomed back on November 10, 2017, and the port in St. Croix welcomed back its first ship, on November 15, 2017.
- In January 2018, the Authority engaged the services of a construction management and design-build firm to provide engineering and construction management services for the repairs of the damaged properties.
- Approximately \$80.0 million in insurance recoveries has been received.

Notes to Financial Statements

In an effort to close potential shortfalls and to serve returning citizens, the Authority continues to work closely with Federal agencies, such as FEMA and the FAA, to maximize its recovery from all available sources, subject to any sublimits and retentions. While inflows of Federal and private funds continue to bolster the reconstruction activity, the eventual amount and timing for receipt of such funds cannot be predicted at this time.

Further, as a result of the disruption to the Authority's operations from the hurricanes, for fiscal year 2018, the Authority did not comply with the requirement to issue the audited financial statements within 270 days after year-end. However, as per the Authority's bonds' indentures, this noncompliance event does not constitute an event of default. The Authority filed the required failure to file notice to the Repository before the annual filing date.

Other

In June 2018, the Authority was issued a civil penalty by the FAA of \$1.5 million for which the Authority is currently working on corrective actions.

In January 2019, new fees pursuant to the airline use and lease agreement was instituted and the Authority and its airline partners are working towards the full execution of this agreement.

In April 2019, in a case filed against the United States CBP for the recovery of wharfage and tonnage, a summary judgement was issued in favor of the United States CBP. As such, no revenue is expected to be recovered.

Management's Evaluation

Management has evaluated any events or transactions occurring after September 30, 2017, the statement of net position date, through September 30, 2019, 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, 2017.

Required Supplemental Information

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

September 30,	2017	2016	2015
Authority's proportion of the net pension liability	3.3752%	3.3677%	3.0233%
Authority's proportionate share of the net pension liability	\$ 156,157,881	\$ 137,122,496	\$ 93,299,583
Authority's covered-employee payroll	\$ 13,804,658	\$ 12,766,325	\$ 11,611,243
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1131%	1074%	803%
Plan fiduciary net position as a percentage of the total pension liability	16.54%	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,	2017	2016	2015
Actuarially required contributions Contributions in relation to the actuarially	\$ 8,457,374	\$ 8,323,545	\$ 6,049,315
required contributions	2,831,590	2,936,210	2,580,037
Contribution deficiency (excess)	\$ 5,625,784	\$ 5,387,335	\$ 3,469,278
Covered-employee payroll	\$ 12,571,399	\$ 13,804,658	\$ 12,766,325
Contributions as a percentage of covered- employee payroll	22.5	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)

Schedule of Revenues and Expenses - Aviation Division (Unaudited) Years Ended September 30, 2017 and 2016 (In thousands of dollars)

	St. Thomas	Special	St. Croix	2017	2016
	Airport	Facilities	Airport	Total	Total
Operating revenues					
Users' fees and dues	\$ 11,442	\$ -	\$ 2,837	\$ 14,279	\$ 13,972
Rentals	4,283	771	1,210	6,264	6,423
Others	3,062	15	1,032	4,109	4,278
Total operating revenues	18,787	786	5,079	24,652	24,673
Operating expenses					
Operating expenses Payroll, payroll taxes, and					
fringe benefits	4,587	_	4,171	8,758	8,259
Repairs and maintenance	949	106	715	1,770	1,525
Materials, supplies,	777	100	, 13	1,770	1,525
and other services	920	24	652	1,596	1,792
Insurance	741	37	352	1,130	1,191
Depreciation	9,407	73	3,341	12,821	10,707
Other operating expenses	3,228	4	1,586	4,818	3,220
General and administrative	,		•	•	·
allocation	7,247	89	3,953	11,289	11,999
Total operating expenses	27,079	333	14,770	42,182	38,693
Total operating expenses	21,019	333	14,770	42,102	30,093
Operating (loss) income	(8,292)	453	(9,691)	(17,530)	(14,020)
Non-operating revenues					
(expenses):					
Passenger facility charges	2,836	-	4	2,840	3,388
Customer facility charges	485	-	-	485	462
Interest income	7	4	-	11	8
Other non-operating expenses	(60)	-	(2)	(62)	(47)
Total non-operating					
revenues (expenses), net	3,268	4	2	3,274	3,811
· · ·					
Change in net position, before					
capital contributions and	4 3				
special item	(5,024)	457	(9,689)	(14,256)	(10,209)
Federal and state government					
capital contributions	1,693	_	8,124	9,817	5,001
Impairment loss on	,		-,	- ,	-,
capital assets, net	(9,987)	(657)	(11,670)	(22,314)	-
Change in net position	\$ (13,318)	\$ (200)	\$ (13 235)	\$ (26,753)	\$ (5,208)
onange in her position				r financial inform	

Schedule of Revenues and Expenses - Marine Division (Unaudited) Years Ended September 30, 2017 and 2016 (In thousands of dollars)

	0. 7	0. 0 .	2017	2016
	St. Thomas	St. Croix	Total	Total
Operating revenues				
Users' fees and dues	\$ 12,992	\$ 1,154	\$ 14,146	\$ 14,736
Wharfage dues	8,206	1,079	9,285	8,363
Rentals	4,962	555	5,517	6,018
Others	676	69	745	1,006
Total operating revenues	26,836	2,857	29,693	30,123
Operating expenses Payroll, payroll taxes, and				
fringe benefits	7,686	2,790	10,476	9,926
Repairs and maintenance	327	151	478	574
Materials, supplies, and	027	101	170	071
other services	1,894	558	2,452	2,522
Insurance	881	332	1,213	1,256
Depreciation	5,026	2,508	7,534	6,237
Other operating expenses	1,717	68	1,785	2,436
General and administrative				
allocation	6,406	2,341	8,747	10,317
Total operating expenses	23,937	8,748	32,685	33,268
Operating income (loss)	2,899	(5,891)	(2,992)	(3,145)
Non-operating revenues (expenses):				
Interest income	286	_	286	245
Financing expenses	(41)	(15)	(56)	(56)
Interest expense	(1,102)	(487)	(1,589)	(1,624)
Other non-operating expenses	(22)	`(10)	(32)	(50)
Total non-operating (expenses), net	(879)	(512)	(1,391)	(1,485)
Change in net position, before				
capital contributions and				
special item	2,020	(6,403)	(4,383)	(4,630)
Federal and state government				
capital contributions	127	_	127	_
Impairment loss on	127		121	
capital assets, net	(7,660)	(2,196)	(9,856)	-
Change in net position	\$ (5,513)	\$ (8,599)	\$ (14,112)	\$ (4,630)

Schedule of General and Administrative Expenses (Unaudited) Years Ended September 30, 2017 and 2016 (In thousands of dollars)

	2017	2016
Payroll, payroll taxes, and fringe benefits	\$ 19,281	\$ 18,281
Repairs and maintenance	480	511
Material, supplies, and other services	1,507	1,789
Insurance	224	232
Depreciation	694	643
Other operating expenses	1,104	828
Impairment loss on capital assets, net	716	-
Non-operating expenses	(3,970)	32
	\$ 20,036	\$ 22,316
Allocated as follows:		
Aviation	\$ 11,289	\$ 11,999
Marine	8,747	10,317
	\$ 20,036	\$ 22,316

Schedule of Net Available Revenues for the Marine Division (Unaudited) Years Ended September 30, 2017 and 2016 (In thousands of dollars)

	2017	2016
Revenues		
Operating revenues:		
Users' fees and dues	\$ 23,431	\$ 23,099
Rentals	5,517	6,018
Others	745	1,006
Interest income and insurance recovery	256	195
Total revenues	29,949	30,318
Expenses		
Operating expenses:		
Payroll, payroll taxes, and fringe benefits	7,602	7,101
Repairs and maintenance	478	574
Materials, supplies, and other services	2,452	2,522
Insurance	1,213	1,256
Other operating expenses	1,785	2,436
General and administrative allocation	5,496	6,934
Total expenses	19,026	20,823
Net available revenues	\$ 10,923	\$ 9,495

Notes to Other Financial Information (Unaudited) Years Ended September 30, 2017 and 2016

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 and GASB Statement No. 82, Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73. 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.