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REQUEST FOR PROPOSALS FOR TURN AROUND MANAGEMENT CONSULTING SERVICES FOR THE VIRGIN ISLANDS WATER AND POWER AUTHORITY

RFP 001-2023-STX/STT/STJ

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1.0 INTRODUCTION: STATEMENT OF PURPOSE

The Virgin Islands Public Finance Authority (the “VIPFA”) is seeking proposals to secure a turnaround management company to assess the status of the Virgin Islands Water and Power Authority (“WAPA” or “VIWAPA”) and provide recommendations on how to generate water and power efficiently, reliably and in the most cost-effective manner possible.

2.0 OVERVIEW OF THE VIRGIN ISLANDS WATER AND POWER AUTHORITY

*Source: US Information Energy Association (<https://www.eia.gov/>) Profile Analysis: US Virgin Islands-Territory Profile and Energy Estimates. Last Updated: February 16, 2023

The U.S. Virgin Islands (USVI), part of the Leeward Islands of the Lesser Antilles, became a U.S. territory in 1917 and is located in the Caribbean Sea, about 1,100 miles southeast of Miami, Florida. The USVI has no fossil energy reserves, but does have some renewable resources, particularly solar energy. The USVI imports petroleum products to meet nearly all of its energy needs, including the fuels to operate vehicles and boats, to generate electricity, and to run the reverse osmosis plants that produce its public water supply.

The USVI consists of four main islands that have a total area of 133 square miles, about twice the size of Washington, DC. The islands are hilly and forested. With limited land suitable for farming, the territory imports most of its food. The largest island is St. Croix. It lies about 40 miles south of the territory's three other inhabited islands: St. John, St. Thomas, and Water Island. The highest peak in the USVI is Crown Mountain, at nearly 1,600 feet, on St. Thomas. The territory's population was estimated at about 87,000 in the 2021 census. Most of the USVI's population is evenly divided between St. Thomas and St. Croix, with each home to about 48% of the territory's residents. St. John has about 4%, and less than 200 people live on Water Island.

Located between the Commonwealth of Puerto Rico to the west and the British Virgin Islands to the east, the USVI has a subtropical climate with easterly trade winds and little seasonal variation in its warm temperatures. The Caribbean hurricane season, which runs from June to November, sometimes brings destructive storms. On average, a hurricane passes near the USVI every three years, and one directly hits the islands about every eight years. In September 2017, the USVI was struck by two back-to-back storms, Hurricanes Irma and Maria, which were both category 5 hurricanes with sustained winds of more than 156 miles per hour. The hurricanes

significantly damaged most of the USVI's electric distribution and transmission lines and also damaged several power generating facilities.

Tourism, trade, and service industries account for about three-fifths of the USVI's GDP, and government spending accounts for about one-third. Manufacturing was second only to tourism in economic importance until the February 2012 closure of the Hovensa crude oil refinery on St. Croix. The islands' leading economic activity is tourism, which typically brings in between 2.5 million and 3 million visitors a year, although tourism declined following the two destructive 2017 hurricanes and the COVID-19 pandemic. Manufacturing is now focused on rum distilling, electronics, and pharmaceuticals. The USVI's per capita electricity consumption is about 50% higher than the 50 U.S. states; however, the USVI's per capital electricity consumption is on par with most states in the southern U.S. where temperatures are similar to the USVI.

Petroleum

The USVI has no known crude oil reserves and does not produce crude oil, although a U.S. Geological Survey assessment in 2013 identified the potential for undiscovered crude oil resources in a subsea formation south of the islands. The former Hovensa refinery on St. Croix, once one of the 10 largest crude oil refineries in the world, was a substantial part of the USVI's economy and provided most of the islands' petroleum products until it was shut down in 2012. The refinery reopened in February 2021 to produce marine fuel that meets new international low-sulphur requirements that took effect in 2020. When the refinery went back online it was able to process about 210,000 barrels of crude oil per day, less than half the 500,000 barrels per day that were previously refined. However, regulators shut down the refinery a few months later after it polluted nearby homes and drinking water. The refinery was sold in the fall of 2021 to two new companies that want to restart it. In November 2022, the U.S. Environmental Protection Agency ordered the refinery's owners to obtain a new air pollution permit before the facility could resume operations. The matter was litigated before the 3rd Circuit Court of Appeals which ruled that the new owners of St. Croix's refinery did not need to obtain a major permit from the U.S. Environmental Protection Agency before restarting operations. The former Hovensa refinery cogenerates electricity, so it does not rely on WAPA for electricity. The former Hovensa refinery also produces its own drinking water via reverse osmosis, so it also does not rely on WAPA for drinking water.

The Virgin Islands Utility:

Pursuant to 30 V.I.C. § 103 the Virgin Islands Water and Power Authority is created an a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government of the Virgin Islands, for the purpose of developing and utilizing and aiding in the development and utilization of adequate water and electric power systems for the people of the Virgin Islands, and any other service or facilities incidental or appropriate thereto, including the providing of services for wholesale advanced communications capabilities and services and telecommunications systems, and making the benefits thereof available to the inhabitants of the Virgin Islands in the widest economic manner consistent with sound fiscal management, and by this means to promote the general welfare and increase commerce and prosperity.

WAPA is a corporation having legal existence and personality separate and apart from the Government. Subject to section 112(a) of this Title 30 of the Virgin Islands Code , the debts, obligations, contracts, bonds, notes, debentures, receipts, expenditures, accounts, funds, facilities, and property of WAPA shall be deemed to be those of said WAPA and not to be those of the Government of the Virgin Islands, or any office, bureau, department, agency, commission, municipality, branch, agent, officer, or employee thereof.

WAPA is governed by a board consisting of the Director of the Virgin Islands Energy Office and six non-governmental members who are appointed by the Governor with the advice and consent of the Legislature. Non-governmental members are appointed for terms of three years and may be reappointed with the advice and consent of the Legislature. Such members may be removed for cause by the Governor. The Government members serve during the term of their government position at the pleasure of the Governor.

Nearly all the energy consumed in the USVI is provided by imported petroleum products. The majority of VIWAPA's 's generation assets burn propane to generate electricity. and produce public drinking water. Propane accounts for approximately 80% of the fuel consumed by VIWAPA to generate electricity and produce drinking water. Diesel accounts for about 20% of

the fuel consumed by VIWAPA for the generation of electricity and production of drinking water. The majority of VIWAPA's generation can operate on propane, which makes the units less expensive to operate and also helps the utility meet clean air quality environmental requirements. VIWAPA is also in the process of commissioning new generation on St. Thomas that will displace older, less efficient generation. The commissioning of the new generation on St. Thomas will result in WAPA operating entirely on propane in its optimal dispatch configuration (the new generation being installed on St. Thomas requires an approximately 5% diesel mix for efficient combustion, but that represents only approximately 2,000 barrels of diesel per month).

The USVI has two separate electricity grids, one each on the two main islands (St. Thomas and St. Croix), each with its own generating facilities, managed by WAPA. WAPA's generating capacity includes combustion turbines powered with diesel or propane, reciprocating internal combustion engines (RICE) powered with diesel or propane, as well as two utility-scale solar power facilities owned by independent power producers (IPPs). WAPA also serves customers with customer-sited rooftop solar panels. More than half of the USVI's petroleum-fueled generating units are more than 30 years old. WAPA has replaced some of its older generators with groups of smaller RICE units, and has an additional set of RICE engines currently being commissioned on St. Thomas as described above. Seabed depth makes any potential electrical connection between the St. Thomas and St. Croix systems difficult. The St. Thomas electric system, with 138 megawatts of generating capacity, supplies electricity to St. Thomas as well as both nearby St. John Island and Water Island by underwater cables. Separated from the St. Thomas system by 40 miles of ocean, the St. Croix system, with 102 megawatts of capacity, supplies the island of St. Croix. The electric systems on both islands have lower power demand than their generating capacities; however, chronic lack of maintenance has impaired the older generator's reliability making routine maintenance outages difficult to execute.

During the back-to-back hurricanes in September 2017, approximately 95% of the USVI's electric transmission and distribution systems were damaged or destroyed. The Federal Energy Management Agency (FEMA) has funded, and continues to fund, significant investment in hardening of WAPA's electric transmission and distribution system, to mitigate future disruption of the islands' grids via installation of composite poles and undergrounding of infrastructure. The

installation of composite poles is approximately 90% complete across the Territory, and projects to underground transmission and distribution infrastructure are ongoing.

In 2021, the industrial sector consumed about 43% of the USVI's total electricity, followed closely by the residential sector at 41%, and the commercial sector at 16%. Imported petroleum products fuel nearly all of the electricity generation on the islands. In 2022, propane generated about 80% of the islands' electricity from WAPA-owned or leased generating facilities, and diesel accounted for about 20%. The contribution from solar power was minimal at about 3%. The USVI's cost of electricity is higher than the mainland US; however, based on the most recent CARILEC Tarriff Survey, WAPA's electric rate is about in-line with the Caribbean average. WAPA's rate is \$0.41 per kWh for residential customers versus the Caribbean average of \$0.39 per kWh. WAPA's shift to propane while most Caribbean utilities continue to rely on diesel for power generation has driven much of this shift. The islands' residential electricity price is currently 41 cents per kilowatt-hour (which included a fuel surcharge of 22 cents per kilowatt-hour), approximately 2.4 times higher than the U.S. residential average electricity price of about 17 cents kilowatt-hour.

The utility opted to develop propane supply infrastructure and convert its generators to operate on propane in 2013 following a sharp rise in diesel prices. Not all turbines that were expected to be converted to operate on propane were successfully converted, but the turbine conversions that were completed increased the fuel flexibility for WAPA's generators and allow several of them to use propane or diesel to generate electricity. The displacement of diesel generation with propane generate reduces WAPA's carbon dioxide emissions, helps the USVI meet clean air standards, and reduces the cost of fuel because diesel is currently about twice the cost of propane on an energy equivalent basis.

In addition to the production, transmission, and distribution of electricity, WAPA also produces potable water under a Water-as-a-Service contract with its partner Seven Seas Water via reverse osmosis with facilities on both St. Croix and St. Thomas. Under the Water-as-a-Service structure, WAPA does not own or operate the reverse osmosis plants, but rather makes monthly contractual payments to Seven Seas Water for its services. Water production on St. Thomas

supplies St. John and Water Island by underwater pipeline. WAPA's electricity generation is critical to the production of water because the reverse osmosis plants cannot operate without the electricity that WAPA generates. WAPA has approximately 15,000 water meters. Residential water meters represent approximately 12,000 of the installed meters, or approximately 80% of total installed meters.

3.0 VIWAPA RESOURCE DOCUMENTS

Attached as to this RFP are the following VIWAPA documents:

- a. Appendix C - VIWAPA Strategic Plan
- b. Appendix D- VIWAPA FY 2019 Audited Financial Statements
- c. Appendix E - VIWAPA FY 2020 Audited Financial Statements
- d. Collective Appendix F- VIWAPA Water and Electric Rates

4.0. SCOPE OF SERVICES

A. Services

The VIPFA is soliciting competitive proposals for a firm to prepare an initial assessment and turnaround report of VIWAPA in accordance with the below:

1. Initial Assessment

Respondent shall within 120 days of the contract start date produce a report for submission to the Legislature of the Virgin Islands and the Governor of the Virgin Islands outlining the following:

- An account of the financial status of VIWAPA
- The status of all ongoing programs and projects at VIWAPA
- An account of all energy plans considered by VIWAPA with anticipated impact on base rates
- An assessment of all debt consolidation and management plans considered by VIWAPA
- An assessment of all water quality and water distribution plans, including an assessment of compliance with water quality standards, considered by the VIWAPA
- An assessment of all plans to increase service quality standards at VIWAPA and to implement sound policy, rules, and regulations for consumer protection

2. Turnaround Report

The Respondent shall within 60 days of the submission of the initial assessment produce a report for submission to the Legislature of the Virgin Islands and the Governor of the Virgin Islands including the following:

- Recommendations for short-term measures to reduce the Levelized Energy Adjustment Clause
- Recommendations for gradually reducing the base rate over a 24-month period
- Recommendations on how best to incorporate renewable resources for the generation of electricity and water and reduce dependence on fossil fuels within a five-year period
- An organizational restructuring plan, inclusive of all divisions
- A debt consolidation and management plan
- An energy plan that allows for appropriate base and LEAC rates
- A water quality and distribution plan that includes compliance with water quality standards.

3. Implementation of Recommendations

The consultant shall assist the management of VIWAPA to implement the recommendations.

B. Cost Proposal

Fees:

The pricing proposed by the Respondent shall be the total consideration, inclusive of applicable taxes. The Respondent, if awarded the contract, will be subject to Virgin Islands Gross Receipt Taxes. All taxes are the responsibility of the Respondent unless exempt by law. The Respondent is advised to contact the Virgin Islands Bureau of Internal Revenue (“IRB”), (340) 715-1040, for information on their tax obligations. Neither VIPFA, nor its employees or representatives, shall be responsible for or liable due to any inquiries or representations regarding the Respondent’s tax liability to the Government of the Virgin Islands. To the extent a Respondent claims an exemption from any applicable taxes, Respondent must present valid written documentation of such.

Pursuant to 33 VIC § 44(a) (b) of the Virgin Islands Code as amended, the Government of the Virgin Islands and its instrumentalities, agencies and public corporations are required, when making a payment to any person, partnership, firm corporation or other business association that is subject to the payment of gross receipt taxes under the law, to deduct and withhold from such payment, gross receipt taxes as required by law at 33 VIC § 43 (a). Payment for the purposes of withholding is defined by law as:

1. Any single payment of at least \$30,000
2. Any payment pursuant to a contract providing for a total expenditure of \$225,000 or more.

The VIPFA will withhold gross receipt taxes in accordance with the above.

C. Organization and Personnel Requirements

A. Respondent shall submit with its proposal background information including:

1. Brief history of the Respondent's firm and a description of all the services it provides.
2. A summary description of its organizational structure (e.g., corporation, partnership, LLC, etc.), its history (including information on the date of its formation and the State of its formation), its management and ownership structure (including the name and address of its officers, and of each person, directly or indirectly holding a five (5%) percent or greater ownership interest in the Respondent.
3. Respondent shall provide documentation satisfactory to the VIPFA demonstrating that it is licensed and authorized to do business in the US Virgin Islands or that it will comply with such licensing requirements if selected for this award.
4. A description of the Respondent's existing business operations, including number of employees by discipline.
5. Proposals must demonstrate the qualifications and experience of the Respondent specifically related to the services contemplated by this RFP.

6. Each proposal must include Respondent's financial information. This information is needed to ensure that Respondent will be capable of fulfilling its obligations under any agreement entered into between the Respondent and the Authority. Demonstration of the applicant's financial soundness shall be established by submitting the following information:

- a. A copy of the Respondent's most recent annual audited financial statement and annual audited financial statements for the previous two years.
- b. Copies of the Respondent's subsequent quarterly financial reports.
- c. Detailed information on any changes in the mode of conducting the Respondent's business, including bankruptcy proceedings or filings, and mergers or acquisitions within the past three (3) years.
- d. List of any bankruptcy proceedings in the past ten (10) years initiated by or against the Respondent or any affiliate or related company.

7. At least three business references (including names of individuals, their titles, organizations, mailing addresses, telephone and fax numbers, and e-mail addresses).

8. Proposals must include the following:

- a. List of any and all criminal convictions within the last (10) ten years rendered against the Respondent, any officer or director thereof, or any affiliate or related company.
- b. List of any and all civil penalties, judgments, consent decrees, violations, Statements of Deficiency or other sanctions within the last ten (10) years rendered against the applicant, any officer or director thereof, or any affiliate or related company.
- c. List of any and all current investigations, indictments or pending litigation by any Federal, State or local jurisdiction initiated against the applicant, any officer or director thereof, or any affiliate or related company.
- d. List of any and all actions occurring within the last ten (10) years which have resulted in revocation or suspension of any permit or authority to do business in any Federal, State, or local jurisdiction, by the applicant, any officer or director thereof, or any affiliate or related company.

e. List of any and all actions occurring in the past ten (10) years that have resulted in the barring from public proposal submission of the applicant, any officer or director thereof, or any affiliate or related company.

B. Personnel

The proposal must identify all personnel who will perform work on the project by education level, skillset (described in detail), experience level, and job title. Resumes of all personnel so identified should be included in the Respondent's proposal.

a. Provide a breakdown of your firm's staff that will be providing services pursuant to this agreement:

b. Please identify the individual(s) who would perform the requested services. Please be sure to identify the backup personnel (in instances when the proposed lead is unavailable). For each person, please also provide a biography as well as the following information:

1. Name
2. Title
3. Expected role
4. Tenure at the firm
5. Total years of experience
6. Total years of public sector experience
7. Control and Compliance

D. Technology Capabilities

The successful Respondent will be responsible for having and using the following technology

capabilities and resources in performing the work: Microsoft Word, Excel, Adobe Acrobat, e-mail, and video conferencing software. The selected Respondent should have the ability to communicate with VIPFA and Government personnel via several different media, including the media mentioned above.

E. Alternative Solutions

If a Respondent offers options and/or alternative solutions that are not requested in this RFP or are not included in its proposed prices, the Respondent must provide the following information for each:

- A detailed description of the option/alternative solution (including, but not limited to, all features, functionality, and/or services that will be unavailable if the option/alternative is not purchased)
- If not included in the proposed prices, a full explanation of the rationale for not including
- Detailed cost information for each option/alternative in accordance with the cost proposal requirements of the RFP.

5.0 Proposal Content

Proposals submitted in response to this RFP must include a cover letter signed by the person authorized to issue the proposal on behalf of the Respondent, and the following information, in the sections and order indicated:

1. Table of Contents

2. Introductory/Executive Summary

Provide an overview of the services being sought and proposed scope of services

3. Respondent Profile

Provide a narrative description of the Respondent itself, including the following:

- a. Respondent's business identification information, including name, business address, telephone number, website address, and federal taxpayer identification number or federal employer identification number.

- b. Primary contact for the Respondent, including name, job title, address, telephone and fax numbers, and e-mail address.
- c. A description of Respondent business background, including, if not an individual, Respondent business organization (corporation, partnership, LLC, for-profit or not for profit, etc.), whether registered to do business in the Virgin Islands, and state of business formation, number of years in business, the primary mission of the business, significant business experience, and any other information about Respondent's business organization that Respondent deems pertinent to this RFP.

4. Provide Understanding

Prepare a brief introduction including a general demonstration of understanding of the scope and complexity of the required work. Provide a description of how the proposed services will be provided. Please include a description of each item identified in the scope of services section (Section 4.0 (A)(1)) and describe creative solutions and alternative approaches where feasible.

5. Proposed Scope of Services

Provide a proposed scope of services, including a cost proposal and project timetable (schedule), in accordance with Section 4 "*Scope of Services*" of this RFP.

6. Statement of Qualifications; Relevant Experience

Provide a statement of qualifications and capability necessary to carry out this project or to provide these services, including a list of comparable projects and identification of individuals (including their names, titles, organizations, mailing addresses, telephone, fax numbers, and e-mail addresses) who may be contacted with respect to each comparable project by providing the following:

- a. Provide adequate information demonstrating experience on projects of similar scope and magnitude. Project start/completion dates and owner/client reference must be included.
- b. List all projects Respondent has completed (or are in progress) for the past eighteen (18) months. Give a brief description of each project, including owner, size of facility, type of work performed, and size of project and completion date.
- c. List the five (5) similar projects Respondent's firm has completed (or are in progress). Give a brief description of each project; include the size of the facility, owner and owner contact to be used for reference purposes. Also include project start and completion (proposed) date

7. References

Provide at least three references, preferably for projects that are similar in type, scope, size, and/or value to the work sought by this RFP. If applicable, the Respondent should provide references for projects with other municipal utilities that are similar in size to VIWAPA. For each reference, include the name, address, and telephone number of the contact person.

8. Proposed Subcontractors

State the intention to use subcontractors to perform any portion of the work sought by this RFP. For each such subcontractor, provide the name and address of the subcontractor, a description of the work Respondent intends the named subcontractor to provide.

9. Cost Proposal

Please provide a cost proposal based upon your best understanding of the scope of the project and the services to be delivered. This cost proposal should include the total estimated cost for this project, itemized by the expected project deliverables. This cost proposal should also include the provision of a detailed list of charges for services. The list of services should include, but not be limited to:

- Hourly personnel rates for all staff assigned to this project.
- Fees for subcontractors
- Reimbursable rates for expenses such as printing, copies, etc.
- Other miscellaneous costs and fees

Final rates will be determined in negotiations with the qualified Respondent after the proposal submissions have been reviewed and contract negotiations have begun. Although VIPFA may begin contract negotiations based on the submitted proposal, it reserves the right to have discussions with those Respondent(s) falling within a competitive range and to request revised pricing offers from them and to make an award or conduct negotiations thereafter.

10. Project Plan and Timeline

Provide a *deidentified* description of the project plan and timeline for similar turnaround management, e.g., providing a review of a service provider's operational structures, revenue streams, summaries, and related services being sought through this RFP.

11. Requested Exceptions to Contract Terms

State exceptions, if any, to the VIPFA's Contract Terms that Respondent requests, including reason for the request and any proposed alternative language.

12. Disclosure of Litigation; Disclosure of Administrative Proceedings

State, for the 5-year period preceding the date of this RFP, a description of any judicial or administrative proceeding that is material to Respondent's business or financial capability or to the subject matter of this RFP, or that could interfere with Respondent's performance of the work requested by this RFP, including, but not limited to, any civil, criminal or bankruptcy litigation; any bankruptcy filings over the past five years; any order or agreement with or issued by a court or local, state or federal agency. For each such proceeding, state the name of the case or proceeding, the parties involved, the nature of the claims involved, its current status, and financial disposition, if any. Provide the same information for any officer, director, principal, or partner of Respondent's organization and for any subcontractor Respondent's plans to use to perform the services described in this RFP.

13. Statement of Financial Capacity

Provide documentation demonstrating fiscal solvency and financial capability to perform the work sought by this RFP. Provide a general, independent statement of the Respondent's financial condition in addition to one or both of the following:

- Respondent's most recent audited or unaudited financial statements
- Most recent IRS Form 990 (for non-profit organizations only)

14. Non-Collusive Affidavit

Complete and submit Enclosure Appendix A. The form must be notarized.

15. Defaults

Provide a description, in detail, of any situation occurring within the past five (5) years in which the Respondent, or a joint venture or partnership of which Respondent was a part, defaulted or was deemed to be in noncompliance of any contractual obligations, explaining the issues involved in the default, the outcome, the actions were taken by Respondent to resolve the matter. Also, provide the name, title, and telephone number of the party to the contract who asserted the event of default or noncompliance or the individual who managed the contract for that party.

16. Notice to Respondent to State Requested Exceptions to Contract Terms in Proposal

The VIPFA's standard contract terms and conditions for services of the type sought by contracting opportunity (Contract Terms) are attached to this RFP as Appendix B. By submitting a proposal in response to this contract opportunity, the Respondent agrees that, except as provided herein, it will enter into a contract with the VIPFA containing substantially the Contract Terms.

Respondent must state clearly and conspicuously any modifications, waivers, objections, or exceptions they seek ("Requested Exceptions") to the Contract Terms in a separate section of the proposal entitled "Requested Exceptions to Contract Terms." For each

Requested Exception, the Respondent must identify the pertinent Contract Term by caption and section number and state the reasons for the request. The Respondent must also propose alternative language or terms for each Requested Exception. Requested Exceptions to VIPFA's Contract Terms will be approved only when the VIPFA determines in its sole discretion that a Requested Exception makes business sense, does not pose unacceptable risk to the VIPFA, and is in the best interest of the Authority. By submitting its proposal, the Respondent agrees to accept all Contract Terms to which it does not expressly seek a Requested Exception in its proposal. The VIPFA reserves the right, in its sole discretion, to evaluate and reject proposals based in part on whether the Respondent's proposal contains Requested Exceptions to Contract Terms, and the number and type of such requests and alternative terms proposed.

If, after the VIPFA issues its Notice of Award to a Respondent, the Respondent seeks Requested Exceptions to Contract Terms that were not stated in its proposal, the VIPFA may, in its sole discretion, deny the Requested Exceptions without consideration or reject the proposal.

The VIPFA reserves the right, in its sole discretion: (i) to waive any failure to comply with the terms of this RFP if it determines it is in the best interest of the VIPFA to do so; and (ii) to require or negotiate terms and conditions different from and/or additional to the Contract Terms in any final contract resulting from this contract opportunity, without notice to other Respondents and without affording other Respondents any opportunity to revise their proposals based on such different or additional terms.

17. Please include any and all additional information as requested by this RFP.

6.0 Confidential Information, Trade Secrets, and Proprietary Information

Proposals submitted in response to RFPs may contain trade secrets and/or privileged or confidential commercial (processes and techniques) or financial information (cost breakdown, profit, and indirect cost rates) which the Respondent (or his subcontractor) does not want used or disclosed for any purpose other than evaluation of the proposal. VIPFA assumes no liability for disclosure or use of unmarked data and may use or disclose such data for any purpose. However, VIPFA reserves the right to make any proposal, including proprietary information contained therein, available to its personnel, the Office of the Governor, or other VI Government agencies for the sole purpose of assisting VIPFA in its evaluation of the proposal. VIPFA shall require said individuals to protect the confidentiality of any specifically identified proprietary information or privileged business information obtained as a result of their participation in these evaluations.

The designation of certain information as trade secrets and/or privileged or confidential proprietary information shall only apply to the technical portion of your proposal. Respondent's cost proposal will not be considered confidential under any circumstance. Any proposal marked as confidential or proprietary in its entirety may be rejected without further consideration or recourse.

For the purposes of this procurement, the provisions of the Virgin Islands Public Records Act (3 V.I.C. § 881) will be in effect. Pursuant to this Act, all proceedings, records, contracts, and other public documents relating to this procurement shall be open to public inspection, but only after the contract has been awarded. Respondents are reminded that while trade secrets and other proprietary information they submit in conjunction with this procurement may not be subject to public disclosure, protections of any confidential information must be claimed by the Respondent at the time of submission of its Proposal. Respondents should refer to the Virgin Islands Public Records Act for further clarification. The Respondent must clearly designate the part of the proposal that contains a trade secret and/or privileged or confidential proprietary information as “Confidential” in order to claim protection, if any, from disclosure. The Respondent shall mark the cover sheet of the proposal with the following legend, specifying the specific section(s) of his proposal sought to be restricted in accordance with the conditions of the legend:

“The data contained in pages ____ of the proposal have been submitted in confidence and contain trade secrets and/or privileged or confidential information and such data shall only be disclosed for evaluation purposes, provided that if a contract is awarded to this Respondent as a result of or in connection with the submission of this proposal, the VIPFA shall have the right to use or disclose the data therein to the extent provided in the contract. This restriction does not limit the VIPFA’s right to use or disclose data obtained from any source, including the Respondent, without restrictions.”

Further, to protect such data, each page containing such data shall be specifically identified and marked “CONFIDENTIAL”. If your proposal contains confidential information, you should also submit a redacted copy along with your proposal. If you do not submit the redacted copy, you will be required to submit this copy within 48 hours of notification from VIPFA. When submitting your redacted copy, you should clearly mark the cover as such - “REDACTED COPY” - to avoid having this copy reviewed by an evaluation committee member. The redacted copy should also state which sections or information has been removed.” Once it is determined that information is confidential or if a restraining order is issued, only the redacted copy is to be made available for public inspection.

Respondents must be prepared to defend the reasons why the material should be held confidential. If a competing Respondent or other person seeks review or copies of another Respondent's confidential data, VIPFA will notify the owner of the asserted data of the request. If the owner of the asserted data does not want the information disclosed, it must agree to indemnify and hold the VIPFA harmless against all actions or court proceedings that may ensue (including attorney's fees) which seek to order the VIPF to disclose the information. If the owner of the asserted data refuses to indemnify and hold the VIPFA harmless, it may disclose the information.

7.0 ISSUING AND PROCURING PROCEDURES

This RFP is being issued by the Virgin Islands Public Finance Authority (“VIPFA”).

Please refer all inquiries to:

Virgin Islands Public Finance Authority
5033 Kongens Gade, St. Thomas, VI 00802
ATTN: Sandy Bryan-Belle
Chief Administrative Officer
PR-001-2023@usvipfa.com

From the issue date of this RFP until a determination is made regarding the selection of a Respondent, refer all contact to **PR-001-2023@usvipfa.com**. Any violation of this condition will be cause for the VIPFA to reject the Respondent’s package. The VIPFA will not be responsible for any oral information given by any employees.

Failure to ask questions, request changes, or submit objections shall constitute the acceptance of all terms, conditions, and requirements in this RFP. Please submit all inquiries to:

PR-001-2023@usvipfa.com by October 16, 2023, no later than 4:00 p.m. AST.

The issuance of a written addendum by the VIPFA is the only official method by which interpretation, clarification, or additional information can be given. If the VIPFA amends this RFP, it will post the addenda to all potential Respondents on the VIPFA website at www.usvipfa.com. Look for “Solicitations”.

VIPFA will not be held responsible if any potential Respondent does not provide current contact information to receive all addenda and conference information. It is the Respondent’s responsibility to update all contact information and contact the VIPFA to ensure that they obtain all addenda before the submittal of the proposal package. The proposal package will be considered non-responsive if all modifications are not incorporated.

8.0 SUBMITTAL OF PROPOSALS

A. Proposal Submittal

All procurement responses shall adhere to the requirements of VIPFA’s proposal request. All costs and expenses associated with developing and/or submitting a response

to this RFP or any related activity following the submission of any such response shall be borne by the Respondent. While the VIPFA has endeavored to supply useful information in this RFP, it makes no representation or warranty, expressed or implied, as to the accuracy or completeness of any information contained in this RFP or otherwise provided by any agent by or on behalf of the VIPFA. VIPFA shall have no liability relating to or arising from any such information or the use thereof. Respondents are encouraged to conduct their own investigation and analysis of any and all information contained herein or otherwise provided by or on behalf of the VIPFA. This RFP is not an offer or commitment and is not capable of being accepted to form a binding agreement. VIPFA reserves the right, in its sole discretion, to withdraw or modify this RFP any time, to accept or reject any or all submissions for any reason, to waive any irregularities or informalities in the proposal process or any nonconformance with the requirements of the RFP and to enter into further discussion or interviews with any one or more Respondent. VIPFA also reserves the right to re-issue all or parts of this RFP if it is not able to establish acceptable providers for any or all services. All responses to this RFP are to be submitted, by email, to:

PR-001-2023 @usvipfa.com no later than 4:00 p.m. AST on November 20, 2023.

The electronic submissions must include the Company's Name – Solicitation Number – in the Subject Line of the email as follows.

VIPFA –RFP-001-2023-STX/STT/STJ

The First Page of each electronic submission must also include the Company's Name – Solicitation Number and Due Date.

Email submission must be clearly marked. Failure to clearly mark the email proposal package may cause the VIPFA to inadvertently open the email proposal package before the official closing date and time. Email submissions that are misdirected, or that are received after the date and time that RFPs are due will be considered LATE and will NOT be opened nor considered.

The proposal shall be signed by an official authorized to bind the Respondent, and shall contain a statement to the effect that the proposal is a firm offer for a one hundred twenty (120) day period. The proposal shall also provide the name, title, address, and telephone number of the individual(s) with authority to negotiate and contractually bind the company, and who also may be contacted during the period of contract.

The deadlines for the RFP are further outlined below:

RFP SCHEDULE	DATES
Issuance of the RFP	October 4, 2023
Questions Due	October 16, 2023
Questions/Answers Posted (As an Addendum is emailed)	October 27, 2023
Proposal Submissions Due	November 20, 2023
Respondent Interviews/Presentations if required	TBD
Proposal Selection	December 20, 2023

VIPFA reserves the right to modify the schedule as circumstances warrant.

B. Questions Relating to the RFP

All questions concerning this RFP must be submitted in writing via email to PR-001-2023@usvipfa.com by the date stated in the RFP Schedule. VIPFA will respond to questions it considers appropriate to the RFP by the date stated in the RFP Schedule. Responses will be posted on the VIPFA’s website at www.usvipfa.com. Please look for the section entitled “Solicitations”. Responses posted on this website become part of the RFP upon posting. VIPFA reserves the right, in its discretion, to revise responses to questions after posting, by posting the modified response. No oral response to any Applicant question by any VIPFA employee or agent shall be binding on VIPFA or in any way considered to be a commitment by VIPFA.

Contact with other VIPFA staff, or other related staff, regarding this RFP is not permitted and failure to comply with this restriction could result in disqualification.

C. Interviews/Presentations

Respondent may be required to make an oral presentation concerning various aspects of their proposal to VIPFA. Such presentations provide an opportunity for Respondents to clarify their application to ensure a thorough and mutual understanding. VIPFA will schedule presentations on an as-needed basis.

D. Selection/Rejection Procedures

The Respondent whose submission is selected by VIPFA will be notified in writing as to the selection. This letter should not be considered as a letter of award. A formal letter of award will be forthcoming at such time when mutual agreement has been reached by the parties on all issues pertaining to the application. Respondents whose submissions are not selected will also be notified in writing by the VIPFA.

9.0 COMPENSATION

A cost proposal must be provided based upon your best understanding of the scope of the project and the services to be delivered. This should be presented as the total cost, itemized by each phase of the project and further by a detailed list of charges for services, including hourly personnel rates for all staff assigned to this project, subcontractor fees, reimbursable expenses and other miscellaneous costs and fees.

While the VIPFA may award a contract based on the initial offer, a Respondent should make its initial offer on the most favorable terms available. VIPFA reserves the right, however, to have discussions with those potential consultants falling within a competitive range, and to request revised pricing offers from them and to make an award or conduct negotiations thereafter.

10.0 CONFLICT OF INTEREST

A Respondent submitting its qualifications must fill out the non-collusion affidavit accompanying this RFP which certifies that no officer, agent or employee of the VIPFA, and any Division therein or subsidiary thereof has a pecuniary interest in its submission or has

participated in contract negotiations on behalf of VIPFA or and any Division therein or subsidiary thereof ; that the submission is made in good faith without fraud, collusion, or connection of any kind with any other Respondent for the same request for qualifications ; the Respondent is competing solely on its own behalf without connection with, or obligation to, any undisclosed person or firm.

11.0 EMPLOYEE CONFLICT PROVISION

Employees and officials of the Government of the Virgin Islands, the Virgin Islands Water and Power Authority and the VI Public Finance Authority are prohibited from submitting a proposal in response to this RFP. No proposal will be considered in which a government employee or official has a direct or indirect interest.

12.0 INSURANCE

Respondent shall be responsible for maintaining, at its sole cost, during the life of the contract the following types of insurance with minimum acceptable limits as set forth below:

LIMITS OF LIABILITY

Commercial General Liability	\$2,000,000.00 per occurrence and in the aggregate
Professional Liability (E&O)	\$2,000,000.00 per claim limit
Unemployment Compensation	\$2,000,000.00 in the aggregate
Workers Compensation	As required by Virgin Islands law
Automobile Insurance	\$2,000,000.00 combined limit per occurrence

The insurance carriers providing the required coverages shall (a) be licensed in the state where Respondent is headquartered, (b) rated no lower than "A-" by the most recent A.M. Best's Key Rating Guide, and (c) have a A.M. Best's Financial Size Category of not less than Class VIII, unless otherwise agreed to by the VIPFA.

For any liability policy maintained on a claims-made basis (including renewals or replacements thereof), the retroactive date (if any) must not be set later than the effective date of this Agreement and shall not be advanced throughout the term of this Agreement or renewal

thereof. Any claims-made coverage must be maintained without material change or interruption of coverage:

(a) throughout the term of this agreement and for any subsequent renewal thereof; and

(b) for a period of not less than three years after termination of this Agreement without advancement of the retroactive date, material change in or interruption of the claims-made coverage (the extended term of protection).

(c) In the event of any advancement of an applicable retroactive date, material change in or interruption of the claims-made coverage during this period, Respondent hereby agrees to take all necessary steps at its sole expense to eliminate any potential gap(s) in the claims-made coverage, including the purchase of an extended reporting period endorsement (“tail” coverage) at the sole expense of Respondent. It is understood that the length of this extended reporting period endorsement may be reduced to coincide with any time remaining in the extended term of protection.

Respondent will be obligated to mail or hand deliver to the Director of Finance and Administration, Virgin Island Public Finance Authority, a copy of any cancellation or non-renewal notice received from the insurer for any policy affording the coverages required herein within five (5) days of Respondent’s receipt of same. Notices by mail should be sent as follows:

Director of Finance and Administration
Virgin Islands Public Finance Authority
P.O. Box 430
St. Thomas, V.I. 00804

Respondent further agrees to provide the VIPFA with 30 days’ advance written notice of any material reduction in coverage initiated by Respondent with respect to any of the required insurance coverages. For the purpose of this provision, material reduction in coverage shall mean any change or reduction in the scope of insurance coverage that adversely affects the protection that would otherwise be available to the VIPFA.

Respondent shall supply a certificate of insurance evidencing such required insurance coverage with its response to this RFP or prior to or concurrent with execution of the contract.

Defense costs in all primary liability policies shall be “outside the limit”, i.e., the full policy limits are for the payment of damages.

The Commercial General and any Excess or Umbrella Liability policy shall be endorsed to name VIPFA as an additional insured. Any such policy shall contain language that: “Such insurance as afforded by this policy for the benefit of the VIPFA shall be primary as respect to any claims, losses, damages, expenses or liabilities arising out of this Agreement, and insured hereunder, and any insurance carried by the VIPFA shall be excess of and noncontributing with insurance afforded by this policy”.

Respondent shall provide the VIPFA with a certificate of insurance signed by an authorized officer of the insurance company or its authorized representative. The certificate shall show:

- The name of the insurance company
- The policy period
- The policy number
- Description of the coverage
- The name of the seller/policyholder
- PFA as an additional insurance.

13.0 REQUIRED DOCUMENTS

The successful Respondent shall be required to submit, along with any other documents required by the RFP, the following:

A. Corporate Documents – The successful Respondent will be required to provide a copy of their Corporate Documents on or before contract execution.

- **Provide a copy of the following Corporate Documents:**

Corporation:

- Copy of Articles of Incorporation & By-Laws

Limited Liability Company (LLC):

- Copy of Articles of Organization
- Copy of Operating Agreement

Sole Proprietor:

- Copy of Trade Name Certificate

B. Employer Identification Number (EIN) - The successful Respondent will be required to provide an official copy of their EIN on or before contract execution.

C. Insurance Documents- The successful Respondent will be required to provide a copy of their Insurance Documents containing the requirements as set forth in this RFP on or before contract execution.

D. Copy of Virgin Islands Business License

Failure to submit the required document(s) on or before contract execution may result in the rescission of the contract award.

14.0 SELECTION PROCESS

The Evaluation Committee Panel is responsible for evaluating all Respondents' submittals, and will consider the following criteria:

- Demonstrated qualifications and relevant experience **(25 pts.)**
- Demonstrated understanding of the project as indicated by a description of each item in the scope of work section **(25 pts.)**
- Appropriateness of project approach and effectiveness of proposed project plan and timetable **(25 pts.)**
- Likelihood that the proposal will provide the best value compared to other submitted proposals **(15 pts.)**
- Appropriateness of staffing to complete the project **(10 pts.)**

15.0 CONFIDENTIALITY OF INFORMATION RECEIVED BY RESPONDENTS

The Respondents shall treat all information obtained from the VIPFA during the proposal process and while conducting that scope of services herein, that is not generally available to the public as confidential and/or proprietary. Respondent shall exercise all reasonable precautions to prevent any information derived from being disclosed to any other person. Respondent agrees to indemnify and hold harmless VIPFA its officials and employees, from and against all liability, demands, claims, suits, losses, damages, causes of action, fines and judgments (including attorney's fees) resulting from any use or disclosure of such confidential and/or proprietary information by the Respondents or any person acquiring such information, directly or indirectly, from the Respondent.

Written approval is required to disseminate any non-public information from:

Director of Finance and Administration
Virgin Islands Public Finance Authority
P.O. Box 430
St. Thomas, V.I. 0080

16.0 RECORD RETENTION

Respondent shall maintain records applicable to the contract. All such records are to be retained for three (3) years after final payment is made.

17.0 EXECUTED CONTRACT TO INCLUDE RFP

The requirements of this RFP (including all attachments, revisions, addendums, and additions) shall become part of the Respondent's Professional Services Contract. Respondent's standard services contract and/or Letter of Engagement as approved by the Parties may be included in the contract.

18.0 VIPFA RESERVATION OF RIGHTS

The VIPFA reserves and may, in its sole discretion, exercise any one or more of the following rights and options with respect to this notice of contract opportunity:

- (a) to reject any and all proposals and to reissue this RFP at any time prior to execution of a final contract;
- (b) to issue a new RFP with terms and conditions substantially different from those set forth in this or a previous RFP;
- (c) to issue a new RFP with terms and conditions that are the same or similar as those set forth in this or a previous RFP in order to obtain additional proposals or for any other reason the VIPFA determines to be in the best interest of the people of the V.I.;
- (d) to extend this RFP in order to allow for time to obtain additional proposals prior to the RFP's application deadline or for any other reason the VIPFA determines to be in the best interest of the people of the V.I.;
- (e) to supplement, amend, substitute, or otherwise modify this RFP at any time prior to issuing an RFP to one or more Respondents;
- (f) to cancel this RFP at any time prior to the execution of a final
- (g) to do any of the foregoing without notice to Respondents or others, except such notice as the VIPFA, in its sole discretion, elects to provide.

Proposals submitted in response to this solicitation become the property of VIPFA.

ENCLOSURE DOCUMENT APPENDIX A
VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

NON-COLLUSIVE AFFIDAVIT

_____, being first duly sworn, deposes and says:

That he/she is _____ (a partner or officer of the firm of, etc.), the party making the foregoing proposal or proposal cost, that such proposal or proposal cost is genuine and not collusive or sham; that said proponent has not colluded, conspired, connived or agreed directly or indirectly, with any proponent or person, to put in a sham proposal cost or to refrain from bidding and has not in any manner directly or indirectly sought by agreement or collusion or communication or conference, with any person, to fix the proposal cost of the affinity or any other proponent, or to fix any overhead, profit or cost element of said cost proposal, or of that of any other proponent, or to secure any advantage against the Virgin Islands Public Finance Authority, Government of the Virgin Islands, or any person interested in the proposed contract; that no officer, agent or employee of the VIPFA, and any Division therein or subsidiary thereof has a pecuniary interest in its proposal or has participated in contract negotiations, and that all statements in said proposal or cost proposal are true.

(Name of Respondent if the Respondent is a Corporation)

(Name of Respondent if the Respondent is a Limited Liability Corporation)

(Name of the Respondent if the Respondent is a Sole Proprietor)

Subscribed and sworn to before me this _____ day of _____, 2020, by

_____ of legal age,

(Trade or Corporation)
and personally, known to me.

(SEAL)

Notary Public

ENCLOSURE DOCUMENT APPENDIX B CONTRACT TERMS & CONDITIONS



VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

CONTRACT FOR PROFESSIONAL SERVICES

THIS CONTRACT FOR PROFESSIONAL SERVICES ("Contract") is made this ___ day of _____, 20___, by and between the United States Virgin Islands Public Finance Authority, an independent instrumentality of the Government of the United States Virgin Islands ("the Authority") and _____ (Contractor") (collectively, "the Parties"):

WITNESSETH:

WHEREAS, the Virgin Islands Public Finance Authority ("the Authority") may from time to time seek to engage a contractor to provide consulting and other professional services for the purpose of _____;

WHEREAS, the Authority is in need of professional services to _____;

WHEREAS, the Contractor has extensive knowledge of the _____ and is otherwise qualified to provide the Services needed; and

NOW THEREFORE, in consideration of the mutual covenants contained herein and intending to be legally bound by this written instrument, the parties hereto covenant and agree as follows:

1. SCOPE OF SERVICES

The Contractor shall

2. COORDINATION

The Contractor shall use its best efforts to coordinate with the Authority and any other contractors retained by the Authority in order that the Services provided by the Contractor do not conflict or unnecessarily overlap with the Services provided by any such other contractors.

3. TERM

The Contract shall commence upon full and final execution by the Parties and shall terminate on _____, unless sooner terminated in accordance with Section 17 (Termination) or otherwise extended by the Parties. [Option to Renew].

4. COMPENSATION

In consideration of the Services performed, as more particularly described in Addendum I to this Contract, the Authority shall pay the Contractor compensation in the amount of _____, in accordance with the provision set forth in Addendum II (Terms of Compensation). The total paid in compensation shall not exceed _____ annually. Contractor shall submit monthly invoices for payment at the end of each monthly period.

5. TRAVEL EXPENSES AND OTHER COSTS RECORDS

The Contractor shall maintain, for a period of three years, records of time expended, and costs incurred under this Contract and shall furnish copies of same to the Authority at its request.

6. PROFESSIONAL STANDARDS

The Contractor agrees to provide the Services described in Addendum I (Scope of Services) in accordance with the professional standards applicable to its profession, and to require the maintenance of such standards by any employee or contractor employed by it to perform services hereunder. All person employed or retained to perform work hereunder shall be authorized to work and duly qualified to perform the work assigned to them, and the Contractor shall comply fully with all applicable laws and regulations of the United States Virgin Islands or of the United States governing or related to the performance hereunder.

7. DOCUMENTS. PRINTOUTS. ETC.

All documents, books, records, instructional material, programs, printouts, and memoranda of every description derived therefrom and pertaining to this Contract shall become the property of the Authority and, at the Authority's option, shall be turned over to it at the termination of this Contract. The above-described material shall not be used by Contractor or by any other person or entity except upon the written permission of the Authority. Contractor shall retain all records pertaining to this agreement for not less than a period of three years after the expiration of this agreement.

8. LIABILITY OF OTHERS

Nothing in this Contract shall be construed to impose any liability upon the Authority to persons, firms, associations, or corporations engaged by Contractor as servants, agents, or independent contractors, or in any other capacity whatsoever, or make the Authority or the Government of the Virgin Islands liable to any such persons, firms, associations, or corporations for the acts, omissions, liabilities, obligations and taxes of the Contractor of whatsoever nature, including but not limited to unemployment insurance and social security taxes for Contractor, its servants, agents or independent contractors.

9. INSURANCE

Contractor agrees to maintain, at its sole cost, during the life of the contract the following types of insurance with minimum limits as set forth below:

<i>INSURANCE TYPE</i>	<i>LIMITS OF LIABILITY</i>
Commercial General Liability	\$2,000,000.00 per occurrence and in the aggregate
Professional Liability (E&O)	\$2,000,000.00 per claim limit
Unemployment Compensation	\$2,000,000.00 in the aggregate
Workers Compensation	As required by Virgin Islands law
Automobile Insurance	\$2,000,000.00 combined limit per occurrence

The insurance carriers providing the required coverages shall (a) be licensed in the state where Respondent is headquartered, (b) rated no lower than "A-" by the most recent Best's Key Rating Guide, and (c) have a Best's Financial Size Category of not less than VIII, unless otherwise agreed to by the Authority.

For any liability policy maintained on a claims-made basis (including renewals or replacements thereof), the retroactive date (if any) must not be set later than the effective date of this Agreement and shall not be advanced throughout the term of this Agreement or renewal thereof. Any claims-made coverage must be maintained without material change or interruption of coverage:

(a) throughout the term of this Agreement, and any subsequent renewal thereof; and

(b) for a period of not less than three years after termination of this Agreement without advancement of the retroactive date, material change in or interruption of the claims-made coverage (the extended term of protection). In the event of any advancement of an applicable retroactive date, material change in or interruption of the claims-made coverage during this period, Contractor hereby agrees to take all necessary steps at his/her sole expense to eliminate any potential gap(s) in the claims-made coverage, including the purchase of an extended reporting period endorsement ("tail" coverage) at the sole expense of Contractor. It is understood that the length of this extended reporting period endorsement may be reduced to coincide with any time remaining in the extended term of protection.

Contractor shall e-mail or fax to the Virgin Island Public Finance Authority a copy of any cancellation or non-renewal notice received from the insurer for any policy required herein within five (5) days of Contractor's receipt of same. Contractor further agrees to provide the Authority with 30 days advance written notice of cancellation, non-renewal or material reduction in coverage initiated by Contractor with respect to any of the required insurance coverages. For the purpose of this provision, material reduction in coverage shall mean any change or reduction in the scope of insurance coverage that adversely affects the protection that would otherwise be available to the Authority.

Contractor shall supply an original certificate of insurance evidencing the required insurance coverage with its response to this RFP and prior to or concurrent with execution of the contract. The certificate of insurance shall be signed by an authorized officer of the insurance company or its authorized representative. The certificate shall show:

- The name of the insurance company
- The policy period
- The policy number
- Description of the coverage
- The name of the seller/policyholder
- VIPFA as an additional insurance.

Defense costs in all primary liability policies shall be "outside the limit", i.e., the full policy limits are for the payment of damages.

The Commercial General and any Excess or Umbrella Liability policy shall be endorsed to name the Authority as an additional insured. Any such policy shall contain language that: "Such insurance as afforded by this policy for the benefit of the Authority shall be primary as respect to any claims, losses, damages, expenses or liabilities arising out of this Agreement, and insured hereunder, and any insurance carried by the Authority shall be excess of and noncontributing with insurance afforded by this policy".

10. ASSIGNMENT

The Contractor shall not subcontract or assign any part of the Services under this Contract without the written consent of the Authority.

11. DOCUMENT RETENTION STANDARDS

The Contractor agrees to adhere to the document retention standards applicable to its profession in the United States Virgin Islands but not less than the term stated in this contract.

12. INDEMNIFICATION

Contractor agrees to investigate, defend and hold harmless the Authority from and against any and all loss, damage, liability, claims, demands, detriments, costs, charges, and expenses (including attorney's fees), and causes of action of whatsoever character which the Authority may incur, sustain or be subjected to, arising out of or as a direct result of the Contractor's negligence in the performance of services under this Contract or compromise of Contractor computer systems or loss, theft or breach of personal identifiable information or commercial

confidential data of VIPFA or their affiliates. The indemnification clause is not intended to convert a claim based solely upon a breach of contract theory into a tort claim.

13. INDEPENDENT CONTRACTOR

The Contractor shall perform this Contract as an independent contractor, and nothing herein contained shall be construed to be inconsistent with this relationship or status.

14. GOVERNING LAW

This Contract shall be governed by the laws of the United States Virgin Islands without regard to conflict of laws principles. Any and all suits for the enforcement of this Contract or arising from any breach of this Contract shall be filed and maintained in a court of competent jurisdiction in the United States Virgin Islands.

15. WAIVERS AND AMENDMENTS

No waiver, modification or amendment of any term, condition or provision of this Contract shall be valid or of any force or effect unless made in writing, signed by the parties hereto or their duly authorized representatives and specifying with particularity the nature and extent to such waiver, modification, or amendment. Any such waiver, modification or amendment in any instance or instances shall in no event be construed to be a general waiver, modification, or amendment of any of the terms, conditions, or provisions of this Contract, but the same shall be strictly limited and restricted to the extent and occasion specified in such signed writing or writings.

16. ENTIRE AGREEMENT

This Contract constitutes the entire agreement between the Parties hereto, and all prior understandings or communications, written or oral, with respect to the Services provided hereunder, which are the subject matter of this Contract, are merged herein.

17. TERMINATION

This Contract may be terminated only as follows by any party with or without cause on ten (10) days' notice. Notice of Termination shall be given as provided in Section 21 of this Contract and shall specify with particularity the effective date of the termination. Upon receipt by the Contractor of a Notice of Termination, the Contractor shall stop the Services under this Contract on the date and to the extent specified in the Notice of Termination. The contractor shall be compensated for services rendered through the effective date of the termination.

18. NON-DISCRIMINATION

No person shall be excluded from participating in, be denied the proceeds of, or be subject to discrimination in the performance of this Contract on account of race, creed, color, sex, religion, disability, or national origin.

19. CONFLICT OF INTEREST

- (a) Contractor covenants that neither it nor its employees or contractors have any interest and will not acquire any interest, direct or indirect, which would conflict in any manner or degree with the performance of Services required to be performed under this Contract.
- (b) Contractor further covenants that neither it nor its employees or contractors are:
 - (1) a territorial officer or employee (i.e., the Governor, Lieutenant Governor, member of the Legislature, or any other elected territorial official, or an officer or employee of the legislative, executive, or judicial branch of the Government or any agency, board, commission, or independent instrumentality of the Government, whether compensated on a salary, fee, or contractual basis); or
 - (2) a territorial officer or employee and, as such, has:
 - (i) familiarized itself with the provisions of Title 3, Chapter 37 of the Virgin Islands Code, pertaining to conflicts of interest, including the penalties provision set forth in section 1108 thereof;
 - (ii) not made, negotiated, or influenced this Contract, in its official capacity;
 - (iii) no financial interest in the Contract as that term is defined in section 1101(1) of said Code chapter.

20. EFFECTIVE DATE

The effective date of this Contract shall be the date provided in Section 3 above.

21. NOTICE

Any notice required to be given by the terms of this Contract shall be deemed to have been given when the same is sent by certified mail, postage prepaid or personally delivered, addressed to the Parties as follows:

**VIRGIN ISLANDS PUBLIC
FINANCE AUTHORITY:**

Executive Director
Virgin Islands Public Finance Authority
P.O. Box 430
St. Thomas, Virgin Islands 008023

Copy to:

Director of Finance and Administration
Virgin Islands Public Finance Authority
P.O. Box 430
St. Thomas, Virgin Islands 00

CONTRACTOR:

Notice which is hand-delivered shall be deemed given upon delivery. Notice which is mailed shall be deemed given on the date signed as received on the return receipt, or within three (3) days following deposit in the U.S. Mail, postage prepaid, whichever occurs first. A party may change the person or address for notice hereunder by providing written notice pursuant hereto.

22. LICENSURE

The Contractor covenants that it has complied with all applicable licensure and other requirements to provide Authority the professional services described in Addendum I and has otherwise complied with Title 27 of the Virgin Islands Code, to the extent applicable to Contractor's provision of those Services.

23. CONDITION PRECEDENT

This Contract shall be subject to the availability and appropriation of funds.

24. FALSE CLAIMS

Contractor warrants that it shall not, with respect to this Contract, make or present any claim upon or against the Authority, or any officer, department, board, commission, or other agency thereof, knowing such claim to be false, fictitious, or fraudulent. Contractor acknowledges that making such a false, fictitious, or fraudulent claim is an offense under Virgin Islands law.

25. CONFIDENTIALITY

All information supplied by the Authority and the Government to Contractor, including information regarding plans, processes, operations, and strategies of the Authority and the Government ("Confidential Information") shall remain the property of the Authority and the Government. Contractor shall hold in confidence and, except in connection with the performance of this Contract, shall not disclose to any third party or use any part of the Confidential Information supplied by the Authority or the Government in connection with performance of this Contract, except such information that:

- a. at the time of disclosure by the Authority or the Government is in the public domain, or which later and prior to disclosure or use by Contractor became part of the public domain through no fault of Contractor;
- b. was in possession of Contractor prior to disclosure by the Authority or the Government and was not previously obtained by Contractor directly or indirectly from the Authority or Government;
- c. prior to disclosure or use by Contractor was obtained by Contractor from a third party as a matter of right and without restriction regarding disclosure or use and which information was not obtained by such third party directly or indirectly from the Authority or Government; or

- d. is required to be disclosed based on advice of counsel: (i) to meet the requirements of any law, statute, rule or regulation; (ii) by any court, governmental or regulatory body, provided however to the extent Contractor receives advance notice of a required disclosure, Contractor will give advance notice to the Authority and the Government of any required disclosure so as to give the Authority and Government the opportunity to review the proposed disclosure of the information and, with respect to disclosures required under (ii) above, the opportunity to object in the appropriate forum.

The Parties agree that monetary damages by themselves would be inadequate to compensate the Authority and the Government for Contractor's breach of its obligations under this paragraph. Contractor agrees that the Authority and the Government shall be entitled to specific performance and other equitable relief, by way of injunction or otherwise if the Contractor breaches or threatens to breach its obligations under this paragraph, which specific performance or other equitable relief shall be granted without bond or proof of damages and in addition to any other remedies that the Authority and the Government may have under applicable law, and the Contractor shall not plead in defense that there would be an adequate remedy at law.

26. ENTIRE AGREEMENT

This Contract, with Addendum I (Scope of Services) and Addendum II (Terms and Conditions), constitute the entire agreement between the Parties hereto, and all prior understandings or communication, written or oral, with respect to the Services provided hereunder, which are the subject matter of this Contract, are merged herein.

27. OTHER CONDITION(S)

(a) In accordance with Title 33, Section 44 of the Virgin Islands Code, the Authority shall deduct and withhold gross receipt taxes (GRT) equal to 5% of each payment and transmit the GRT to the Virgin Islands Bureau of Internal Revenue. A "payment" is defined as (1) any single payment of at least \$30,000.00; and (2) any payment pursuant to a contract providing for a total expenditure of \$225,000 .00 or more.

(b) The Contractor shall be solely responsible for all costs related to the transfer of any files produced in connection with this engagement.

IN WITNESS WHEREOF, the Parties have hereunder set their hands.

Virgin Islands Public Finance Authority

Witness

Contractor

Witness

Approved for Legal Sufficiency:

General Counsel

**CONTRACT ADDENDUM I
SCOPE OF SERVICES**

A. SCOPE OF SERVICES

B. CONTRACTOR'S RESPONSIBILITIES

The Contractor will submit proof to the satisfaction of the Authority that it can perform the Services contracted under the laws of the United States Virgin Islands.

The Contractor will provide updates of the status of the Services being performed as requested by the Authority. The Contractor will submit invoices on a monthly basis.

C. AUTHORITY'S RESPONSIBILITIES

The Authority agrees that all records, documentation, and information requested by the Contractor in connection with the work hereunder will be made available and that the Contractor will have the full cooperation of the Authority personnel.

In accordance with Title 33, Section 44 of the Virgin Islands Code, the Authority shall deduct and withhold gross receipt taxes (GRT) equal to five percent (5%) of each payment and transmit the GRT to the Virgin Islands Bureau of Internal Revenue. A "payment" is defined as "(1) any single payment of at least \$30,000.00; and (2) any payment pursuant to a contract providing for a total expenditure of \$225,000.00 or more."

CONTRACT ADDENDUM II COMPENSATION

The Contractor shall provide the Authority with an invoice statement on a monthly basis for work performed. The Contractor shall be paid the reasonable value of its Services in the amount of \$_____ for a total contract amount not- to-exceed \$_____.

Appendix C

VIWAPA STRATEGIC PLAN

**The number one challenge facing the Authority is
fuel costs**

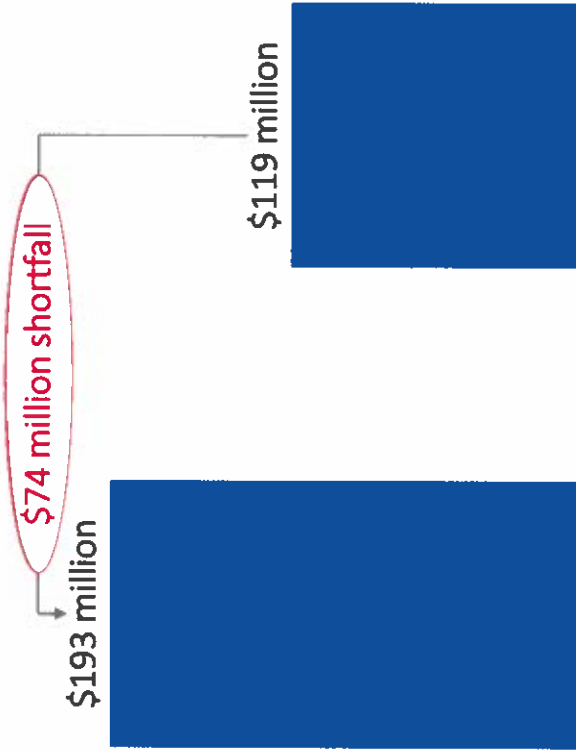


**The most urgent goal of Phase 1 in the Strategic
Plan is to reduce fuel costs**



Calendar Year 2022 Fuel Cost vs. Fuel Revenue

Fuel Cost vs. Fuel Revenue



Fuel Cost =

Propane & Diesel Market Prices

CAN'T Control

+ Cost of Transporting Fuel to Islands

+ Amount of Propane vs. Diesel Burned

CAN Control

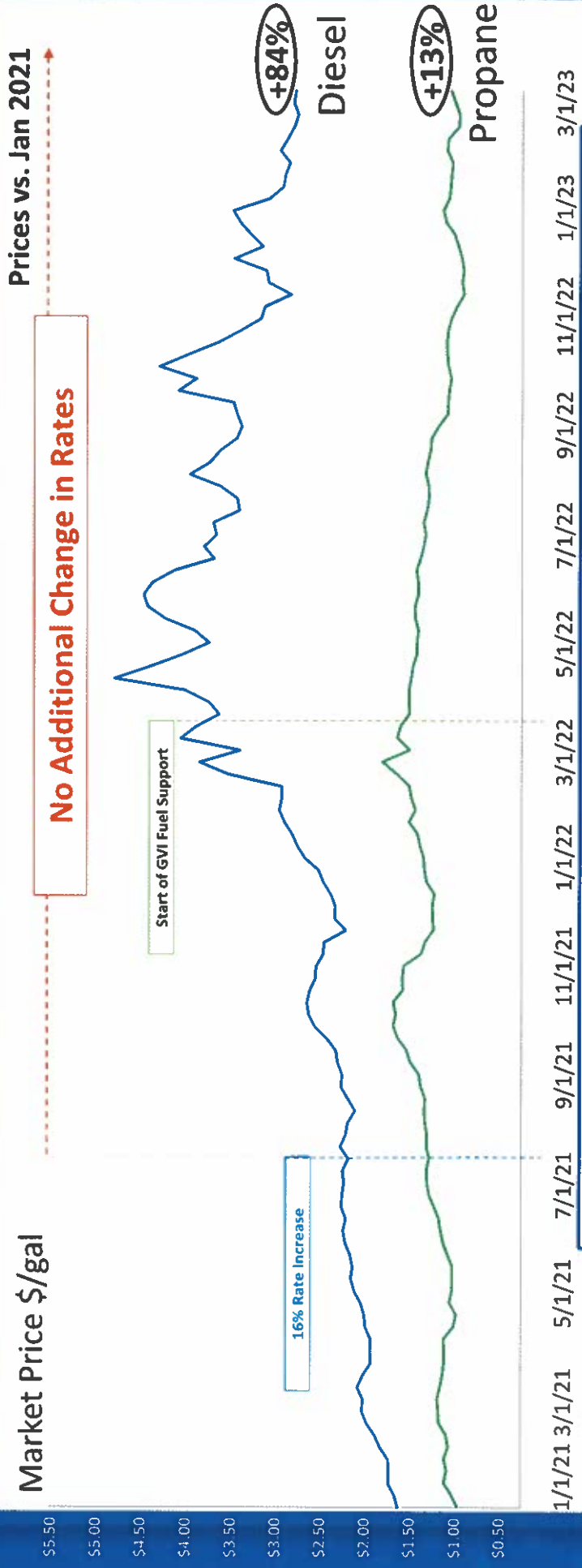
+ Generation Facility Efficiency

Cash Paid for Fuel Cash Collected for Fuel - LEAC

WAPA spent ~\$75 million more buying fuel than it collected in revenue from customers in 2022



Propane & Diesel Market Prices – 2021 to present

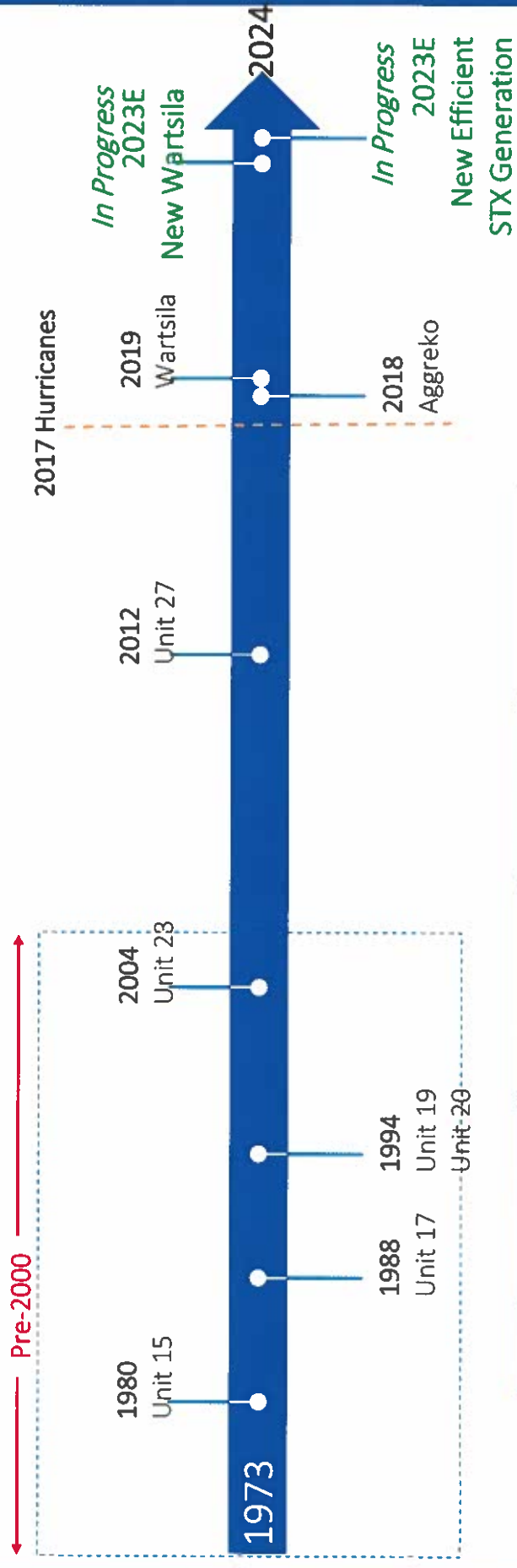


Propane and diesel prices remain high, but customer's rates have not changed in almost two years



WAPA's Generation

The majority of the Authority's generation capacity is at least 30 years old:



Old generation is inefficient, causing higher fuel costs

Stabilize and Begin Transformation

Eliminate WAPA's need for GVI subsidy



Strategic Plan – Near-Term Critical Initiatives

Step 1: Stabilize and Begin Transformation

Key Critical Initiatives

- 1 Finalize Vitol settlement & switch to competitive propane supply
- 2 Finalize Wartsila installation
- 3 Install new efficient STX generation
- 4 Replace Aggreko units
- 5 Implement AMI solution

Annual Cost
Savings

~\$80 million

~33% reduction
in total costs

Early critical initiatives focused on reducing fuel costs to financially stabilize WAPA



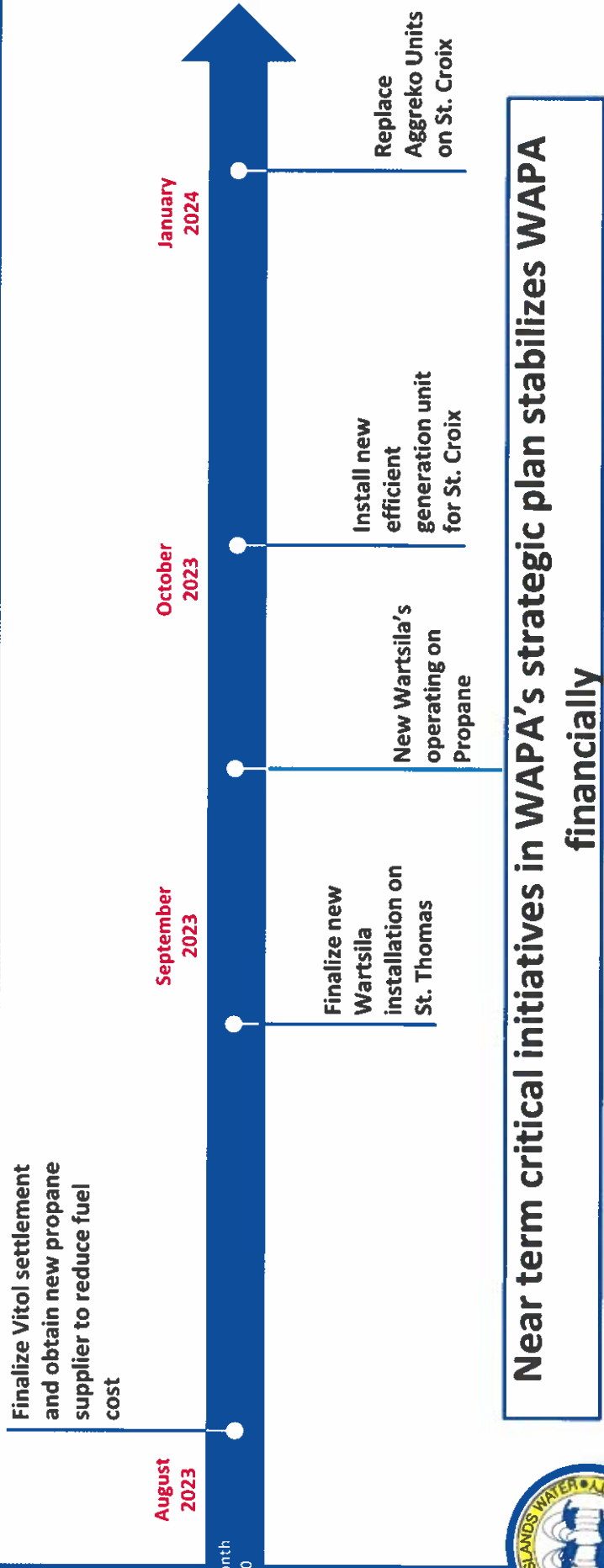
Strategic Plan – Near-Term Critical Initiatives (Matrix)

Project	WAPA Ownership	Funding Source	Commercial Partners	Government Partners	Targeted Timeline	Benefits
1 VTOL Supply Contract	Jake Lewis (CFO)	GVI (HUD reimbursed)	<ul style="list-style-type: none"> Squire Patton Boggs - Outside Counsel Duane Morris - Outside Counsel KBR/Kiewit - Engineering Inspection Alternate propane suppliers Outside Environmental Counsel 	<ul style="list-style-type: none"> Gov't House 35th Legislature VIHFA DPNR HUD OMB 	August 2023	<ul style="list-style-type: none"> Eliminates largest debt Eliminates largest ongoing expense Reduce annual fuel cost by ~15%
2 New Wartsila Generation	Chavanté Marsh (Director Project Mgmt)	HUD	<ul style="list-style-type: none"> Wartsila - Project Developer West Peak - Outside Project Mgmt Urea Supplier EXSOL - Propane Connection Engineering 	<ul style="list-style-type: none"> Gov't House 35th Legislature VIHFA DPNR HUD EPA 	September 2023	<ul style="list-style-type: none"> Reduce annual fuel cost by ~25% Improves reliability
3 New STX Generation	Ashley Bryan (COO Electric)	HUD	<ul style="list-style-type: none"> Pro Energy - Generation Vendor Solar Turbines - Generation Vendor Outside Environmental Counsel Duane Morris - Outside Counsel 	<ul style="list-style-type: none"> Gov't House 35th Legislature VIHFA DPNR HUD EPA 	October 2023	<ul style="list-style-type: none"> Reduce annual fuel cost by ~10% Improves reliability
4 Replace Aggreko Units	Ashley Bryan (COO Electric)	HUD	<ul style="list-style-type: none"> Pro Energy - Generation Vendor Solar Turbines - Generation Vendor Outside Environmental Counsel Duane Morris - Outside Counsel 	<ul style="list-style-type: none"> Gov't House 35th Legislature VIHFA DPNR HUD EPA 	January 2024	<ul style="list-style-type: none"> Reduce operating cost by ~10%
5 Implement AMI Solution	Julius Aubain (CIO) Chavanté Marsh (Director Project Mgmt)	FEMA	<ul style="list-style-type: none"> Z2 Solutions - AMI Consultant identifying solutions Multiple third parties - deployment phase 	<ul style="list-style-type: none"> Gov't House 35th Legislature ODR 	TBD	<ul style="list-style-type: none"> Improved billing increases revenue Reduced underbilling increases revenue Improve customer service Reduce electricity theft

Significant resources dedicated to critical initiatives

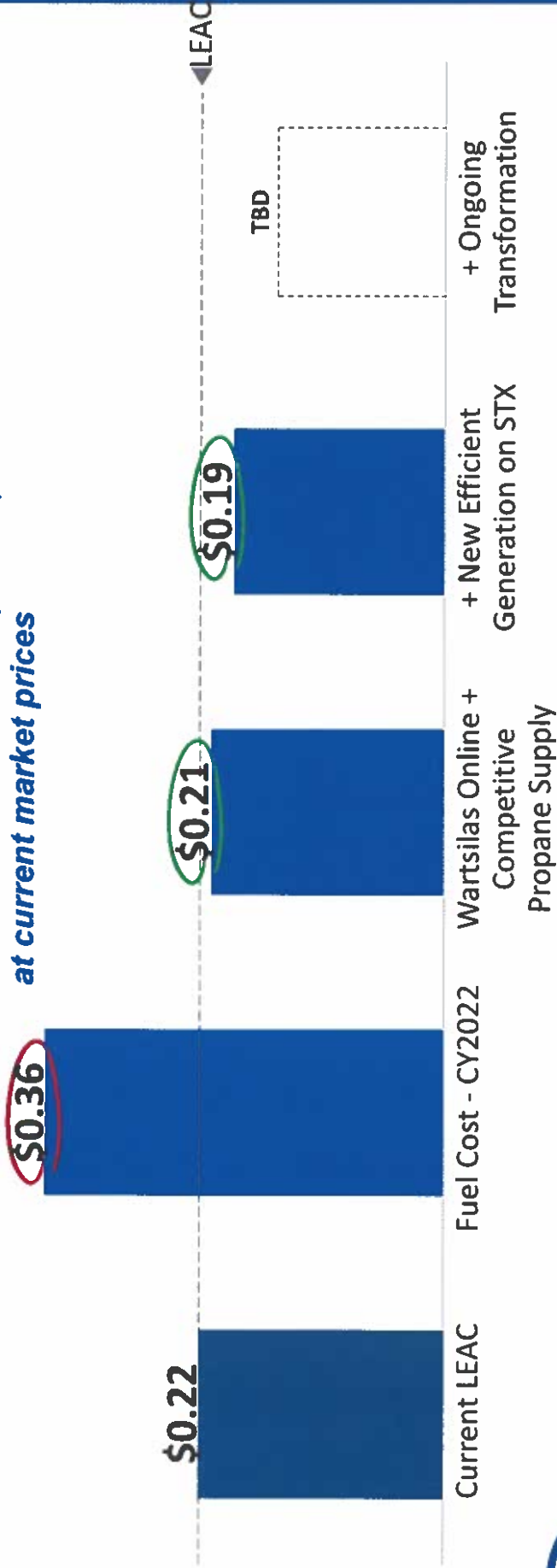


Timeline to Efficient Generation & Lower Fuel Costs



Strategic Plan Savings

Fuel Cost vs. Current LEAC (\$/kWh)
at current market prices



New efficient generation and competitive propane supply gets WAPA off GVI support

Ongoing Transformation

Lowering the rate & optimizing operations



Strategic Plan – Ongoing Transformation

Step 2: Ongoing Transformation



Solar and Wind Capacity

- PPAs have been approved



Battery Storage

- Potential for federal funding



Further Improve WAPA's Balance Sheet



Continuous System / Process Improvements

- Billing, customer service, payroll, budget, etc.



Further refine organization and build long-term strategy



Continuing transformation to improve operations

Strategic Plan – Renewables

WAPA plans to source one-third of its energy needs from renewables by 2025



Solar and wind energy are significantly cheaper than generating electricity by burning propane or diesel



Burning less propane or diesel lowers the Authority's financial risk by **protecting customers from spikes in fuel prices**



Burning less propane or diesel is **good for the environment**



Wind and solar reduce costs and lower risk because WAPA will burn less fuel

Strategic Plan – System & Process Improvements

To improve WAPA's systems and processes, WAPA plans to:



Complete implementation of fix for AMI (Advanced Metering Infrastructure)



Update billing processes to ensure bills are correct and produced timely



Consistently address and resolve customer service inquiries in a timely and professional manner



Continue to address issues within the Accounting, Billing, Budget & Cash, Production and other departments to implement process improvements



WAPA must address processes and systems once its fuel problem is fixed

Risks

There are significant factors outside of WAPA's control.



Key Risks



WAPA CAN Control:



Internal operations



Project management



Optimizing current generation



WAPA CANNOT Fully Control:



Propane and diesel market prices



Vital transaction settlement



Release of federal funds



Other external stakeholders

- **Propane and diesel market prices** are outside of WAPA's control and have a **material impact on WAPA's costs.**
- Stakeholders outside of WAPA's control **can materially impact WAPA's ability to execute its plan.**
- **Timely release of federal funding** is essential for multiple initiatives.
- The longer it takes to implement the strategic plan, **the more it costs.**



There are significant factors outside of WAPA's control

Partners

Timing and cooperation from outside stakeholders can drastically impact the outcome



Conclusion

Entire Strategic Plan is focused on lowering rates and improving customer service



Conclusion

1 Immediate, near-term initiatives can lower WAPA's fuel costs and lead to a financially self-sustaining Authority

2 A sound financial foundation for WAPA is required for a successful transformative future

- Solar
- Wind
- Fixing Automated Metering
- Improving Customer Service

LOWERING CUSTOMER
ELECTRIC RATES



Collective Appendix D

VIWAPA Water & Electric Rates

RESIDENTIAL

- FIRST 250 KWH -

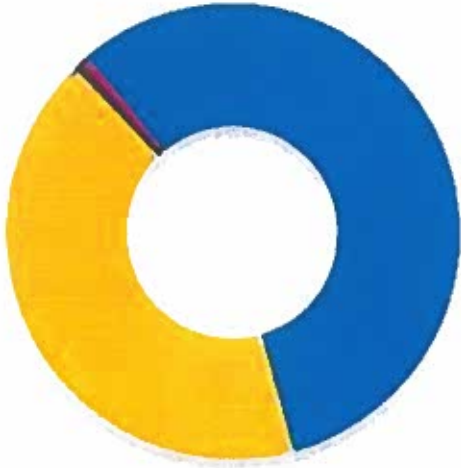
■ Energy Charge

■ Fuel Charge

■ Pilot Surcharge

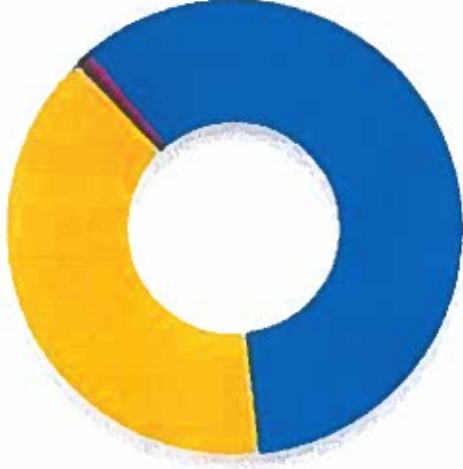
■ Self Insurance Surcharge

■ OPEB Surcharge



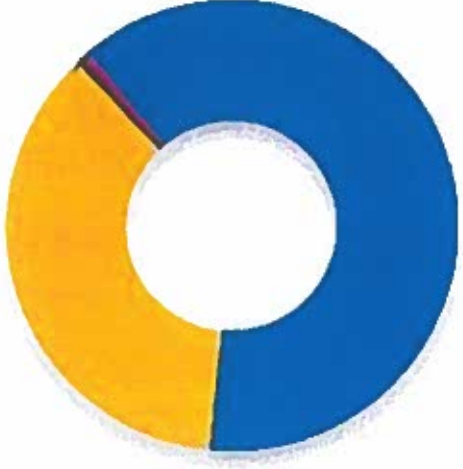
Residential Energy Charge: \$ 0.181456
 Fuel Charge: \$ 0.222246
 Pilot Surcharge: \$ 0.000686
 Self-insurance Surcharge: \$ 0.001925
 OPEB Surcharge: \$ 0.002166

Total Residential Charge:
\$ 0.408479 / kWh



Residential Energy Charge: \$ 0.207654
 Fuel Charge: \$ 0.222246
 Pilot Surcharge: \$ 0.000686
 Self-insurance Surcharge: \$ 0.001925
 OPEB Surcharge: \$ 0.002166

Total Residential Charge:
\$ 0.434677 / kWh



Commercial Energy Charge: \$ 0.246533
 Fuel Charge: \$ 0.222246
 Pilot Surcharge: \$ 0.000686
 Self-insurance Surcharge: \$ 0.001925
 OPEB Surcharge: \$ 0.002166

Total Commercial Charge:
\$ 0.473556 / kWh

RESIDENTIAL

- ALL OTHER KWH -

COMMERCIAL

- ALL KWH -

In addition to the per kWh rates, all customers are assessed a flat rate customer charge.

Residential: \$ 4.86

Commercial: Single Phase: \$ 6.33 or Three Phase: \$ 12.65

BREAKDOWN OF FUEL CHARGE RATE

Other Charges

Regulatory Costs (Dkt.289):

Renewable Energy Cost:

Ultra-Pure Water Charge:

Plant Repair RO Contract:

Total Other Charges:

\$ 0.000233

\$ 0.002275

\$ 0.002953

\$ 0.000403

\$ 0.005864

+ Current Fuel Cost Portion of LEAC: \$ 0.216382
 + Prior Period Under Recovery: \$ 0.00

Total Fuel Charge Rate:
\$ 0.222246/ kWh



GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

PUBLIC SERVICES COMMISSION

IN RE:

VIRGIN ISLANDS WATER AND POWER
AUTHORITY'S LEVELIZED ENERGY
ADJUSTMENT CLAUSE

PSC Docket No. 289

Order No. 4/2023

ORDER

WHEREAS, on February 25, 2022, in PSC Order 16/2022, the Virgin Islands Public Services Commission (hereinafter "PSC" or "Commission") voted to approve the Virgin Islands Water and Power Authority's (hereinafter "WAPA" or "Authority") temporary request for an extension of the current electric LEAC rate of 22.2246 ¢/kWh for the period of March 1, 2022, to June 30, 2022; and

WHEREAS, on July 14, 2022, the Commission voted to retroactively reauthorize WAPA's electric LEAC rate of 22.2246 ¢/kWh from July 1, 2022 through September 30, 2022, for the period of March 1, 2022 to June 30, 2022 in PSC Order 24/2022; and

WHEREAS, on the reauthorization was contingent on WAPA submitting documentation of its continuing fuel costs, fuel pricing and operations that support the continuation of the current rates, and that demonstrate that WAPA is undertaking steps to reduce its costs as expeditiously as prudently possible, and WAPA made a satisfactory and timely filing; and

WHEREAS, on September 26, 2022, the Commission heard testimony from its staff and WAPA and voted to extend WAPA's current electric LEAC rate of 22.2246 ¢/kWh for the period of October 1, 2022, to December 30, 2022 in PSC Order 27/2022; and

WHEREAS, on December 9, 2022, the Virgin Islands Public Services Commission (hereinafter "PSC" or "Commission") received a Petition from the Virgin Islands Water and Power Authority's (hereinafter "WAPA" or "Authority"), requesting a temporary extension of its current electric Levelized Energy Adjustment Clause (hereinafter "LEAC") rate of 22.2246 ¢/kWh for the period of January to March 2023; and

WHEREAS, on December 13, 2022, the Commission held a Regular Meeting at its office located at No. 1003 Estate Ross, Suite 4, Barbel Plaza on the island of St. Thomas, United Virgin Islands and via Zoom videoconference; and

WHEREAS, the Commission heard testimony from its staff and WAPA; and

WHEREAS, WAPA failed to file a Petition of the current Water LEAC that will expire on December 30, 2022; and

WHEREAS, upon review and deliberation the Commission voted to extend WAPA's current electric LEAC rate of 22.2246 ¢/kWh for no more than of six (6) months beginning January 1, 2023 and to extend the current water LEAC rate of \$7.82/kGal for the period January 1, 2023 until March 1, 2023; and

NOW THEREFORE, the Commission **ORDERS** that:

1. The current Electric LEAC rate of 22.2246 ¢/kWh shall be extended for no more than six (6) months beginning January 1, 2023.
2. The current Water LEAC rate of \$7.82/kGal shall be extended for the period of January 1, 2023, to March 1, 2023.

So Ordered.

For the Commission,



David Hughes, Chair

Date: September 26, 2022

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

PUBLIC SERVICES COMMISSION

IN RE:

VIRGIN ISLANDS WATER AND POWER
AUTHORITY'S LEVELIZED ENERGY
ADJUSTMENT CLAUSE

PSC Docket No. 289

Order No. 16/2022

ORDER

WHEREAS, in Order 17/2021, the Virgin Islands Public Services Commission (hereinafter "PSC" or "Commission") voted to set the Virgin Islands Water and Power Authority's (hereinafter "WAPA" or "Authority"), Levelized Energy Adjustment Clause (hereinafter "LEAC") rate for the electric system at 17.2125¢/kWh for the period of July 1, 2021, to December 30, 2021; and

WHEREAS, in Order No. 15/2020 the Commission set a Water System LEAC rate of \$5.03/kGal; and

WHEREAS, on October 12, 2021, USVI Water and Power Authority ("WAPA") filed a petition with the VI Public Services Commission ("Commission" or "PSC") requesting a Levelized Energy Adjustment Clause (LEAC) rate of 18.9559 ¢/kWh set for the period January 1 – June 30, 2022, which would have been an increase of 1.7434¢/kWh from the current LEAC rate of 17.2125 ¢/kWh; and

WHEREAS, on January 18, 2022, WAPA filed a petition for a LEAC rate of 17.52 ¢/kWh for the January-March 2022 period and a LEAC rate of 23.34 ¢/kWh for the period April—June period (an increase of 6.1275 ¢/kWh; and

WHEREAS, the same January 18th filing also sought a new Water System LEAC for the remainder of calendar year 2022 in the amount of \$9.82/kGal, an increase of \$4.79kGal; and

WHEREAS, the Commission engaged its technical consultants, Georgetown Consulting Group, Inc. (hereinafter "GCG"; also included within "PSC Staff") to conduct a review and analysis of WAPA's Petition; and

WHEREAS, during discussions with WAPA staff a third version of Attachment A was provided on February 10, 2022, with updated fuel prices and a correction to the earlier model filed. PSC Staff reviewed this request and found that WAPA is requesting a LEAC rate of 21.88 ¢/kWh, an increase of 4.6675 ¢/kWh over the current LEAC rate; and

WHEREAS, after review of this document Staff encountered additional factual discrepancies in the model provided and which discrepancies were communicated to WAPA. WAPA provided corrections to the model and provided Staff with an updated model on February 21, 2022, however that submission was received too late for review and inclusion in the analysis and report submitted for this hearing; and

WHEREAS, Staff also found that WAPA did not use the production energy account template adopted by the Commission in its July 27, 2021, Order No. 17/2021. Staff made adjustment to the February 21, 2022, model on February 22, 2022; and

WHEREAS, on February 23, 2022, GCG submitted its Report and Recommendations to the Commission and the Authority; and

WHEREAS, PSC Staff recommended an Electric System LEAC of 23.14 ¢/kWh which does not include an allowance for deferred fuel expense; and

WHEREAS, PSC Staff recommended a Water System LEAC of \$7.82/kGal, which does not include an allowance for deferred fuel expense; and

WHEREAS, on February 25, 2022, the Commission heard testimony from its technical consultants and the Water and Power Authority; and

WHEREAS, the Commissioners expressed dissatisfaction with the information received from WAPA and GCG, with the process and with the compliance with prior requirements; and

WHEREAS, the Commissioners acknowledged the dramatic volatility in oil prices that have occurred world-wide and which have and will continue to affect WAPA's fuel costs; and

WHEREAS, the Report and Recommendations also detailed the lack of progress to date by the Authority in reducing fuel consumption, becoming more efficient in its operations, and in diversifying its renewable energy;

WHEREAS, the Commission noted that as a result of its prior actions, in particular at the January 28, 2022, Commission meeting, WAPA's Base Rates are scheduled to be reduced by 5.0121 ¢/kWh as of March 1, 2022;

NOW THEREFORE, the Commission ORDERS that:

1. The Electric LEAC rate shall be increased from 17.2125¢/kWh by the amount of the Base Rate reduction, 5.0121 ¢/kWh, resulting in a new LEAC rate of 22.2246 ¢/kWh for the period of March 1, 2022, to June 30, 2022, and to be applied to bills rendered after March 1, 2022.
2. The Water LEAC rate shall be increased from /kGal to \$7.82/kGal for the period of March 1, 2022, to December 31, 2022, and to be applied to bills rendered after March 1, 2022.

So Ordered.

For the Commission,

A handwritten signature in black ink, appearing to read "David Hughes", written in a cursive style.

Date: March 14, 2022

David Hughes, Chair

WATER RATE CHANGE

On July 13, 2023, the Virgin Islands Public Services Commission (“PSC”) granted a requested rate change for water services of \$9.53/kgal.

*** PSC Order Pending.**


Appendix E

VIWAPA 2019 AUDITED FINANCIALS



Electric System of the Virgin Islands Water and Power Authority

**Management's Discussion and Analysis,
Financial Statements (with Independent
Auditor's Report Thereon), Required
Supplementary Information, and
Supplementary Schedule (Unaudited)
Years Ended June 30, 2020 and 2019**



Electric System of the Virgin Islands Water and Power Authority

**Management's Discussion and Analysis,
Financial Statements (with Independent
Auditor's Report Thereon), Required
Supplementary Information, and
Supplementary Schedule (Unaudited)
Years Ended June 30, 2020 and 2019**

**Electric System of the Virgin Islands
Water and Power Authority**

Management's Discussion and Analysis,
Financial Statements (with Independent
Auditor's Report Thereon),
Required Supplementary Information, and
Supplementary Schedule (Unaudited)
Years Ended June 30, 2020 and 2019

Electric System of the Virgin Islands Water and Power Authority

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Independent Auditor's Report

To the Governing Board
Virgin Islands Water and Power Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Electric System (the Electric System) of the Virgin Islands Water and Power Authority (the Authority), a major fund of the Authority, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Electric System's basic financial statements as listed in the table of contents. The Authority is a component unit of the Government of the U.S. Virgin Islands.

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 of material misstatement.

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

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

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Basis for Qualified Opinion on 2019

The Electric System has classified a portion of its outstanding bonds and notes as long-term liabilities in the accompanying statements of net position. In our opinion, these obligations should be classified as current liabilities to conform with accounting principles generally accepted in the United States of America because at June 30, 2019, the Electric System is in default on certain covenants pertaining to its bond resolutions and the lenders may demand repayment of these obligations. If the financial statements were corrected for that departure from accounting principles generally accepted in the United States of America, total current liabilities would be increased by \$255,276,478, total noncurrent liabilities would be decreased by \$255,276,478, and working capital would be decreased by \$255,276,478 as of June 30, 2019.

Unmodified Opinion on 2020 and Qualified Opinion on 2019

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Electric System of the Virgin Islands Water and Power Authority, as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended, except for the effects of classifying a portion of its outstanding bonds and notes as long-term liabilities, as discussed in the Basis for Qualified Opinion on 2019 paragraph, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, these financial statements present only the Electric System and do not purport to, and do not present fairly the financial position of the Authority, as of June 30, 2020 and 2019, the respective changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

The accompanying financial statements have been prepared assuming the Electric System will continue as a going concern. As discussed in Note 12 to the financial statements, the Electric System is in an uncertain financial position and has reported an unrestricted net deficit and has suffered losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 12. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of changes in OPEB liability and related ratios, schedule of the Electric System's OPEB contributions, schedule of the Electric System's share of the net pension liability, and schedule of the Electric System's pension contributions on pages 6 through 13 and 57 through 60 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the Electric System's basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information - Supplementary Schedule

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Electric System's basic financial statements. The five-year comparative summary of operations is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2022, 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 solely 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.

BDO USA, LLP

June 30, 2022

Management's Discussion and Analysis

Electric System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

The Virgin Islands Water and Power Authority (the Authority) owns, operates, and maintains an electric generation and distribution system (the Electric System) and a water production and distribution system (the Water System), which are separately financed and require separate accounting and reporting. Each of these Systems is accounted for as a separate enterprise. As management of the Authority, we offer readers of the Electric System financial statements this discussion and analysis of the financial activities of the Electric System for the years ended June 30, 2020 and 2019, with selected comparative information for the year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the financial statements that follow this section.

The Electric System's service territory includes the islands of St. Thomas, St. Croix, St. John, and Water Island. The electric generating facilities for St. Thomas, St. John, and Water Island are interconnected via subsea cable, while the St. Croix generating facilities serve on a stand-alone basis. The Authority is the only electric utility that operates in the Virgin Islands. There are, however, a few commercial entities that produce electricity for their own use.

The Authority provides electric service to more than 70,000 customers (as of June 30, 2020). The Authority also provides water service to approximately 16,400 customers (as of June 30, 2020). The Electric System's rates are under the jurisdiction of the Virgin Islands Public Services Commission (PSC or the Commission), unlike many other municipal systems. These rates are intended to provide revenues to recover operating and maintenance expenses, funds for debt service coverage requirements, and funds for working capital and capital expenses. The Authority does not use rate base or rate of return principles for setting rates.

Financial Highlights - 2020

- Net position increased by \$103.1 million from a \$221.1 million surplus as a result of fiscal year 2020 operations.
- Current assets increased from \$154.3 million to \$154.5 million. This was primarily due to increases in unbilled revenues of \$4.5 million, Virgin Islands Government receivable of \$1.0 million, customer receivable of \$1.2 million and prepayments of \$2.8 million, tempered by decreases in grants receivable of \$2.9 million and decline in cash and investment derivative instruments of \$6.0 million.
- Other non-current assets decreased by \$22.0 million, due primarily to a combination of decreases in long-term government receivables of \$10.9 million and fuel costs recoverable of \$10.7 million, and a decrease in Due from Water System of \$0.4 million.
- Capital assets increased from \$1,254.2 million in 2019 to \$1,353.2 million in 2020. This was primarily due to an increase of \$34.8 million in utility plant in service, and non-depreciable assets of \$96.1 million offset by \$32.0 million in depreciation. The increase is mainly attributed to reconstruction efforts post Hurricanes Irma and Maria in September 2017. Additional information on capital assets can be found in Note 5.
- Total deferred outflows of resources increased from \$34.7 million in 2019 to \$60.0 million in 2020.

Electric System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

- The fuel costs recoverable balance decreased by \$10.7 million to \$18.0 million in 2020 as the Levelized Energy Adjustment Clause (LEAC) permitted by the PSC allows the Authority to recover a significant amount of its cost of fuel during the year.
- Total liabilities have increased by \$1.4 million to \$1,258.5 million in 2020 mainly due to increases in pension and OPEB related liabilities of \$19.5 million, restricted liabilities of \$18.3 million and due to Water System of \$8.1 million, tempered by declines in long-term debt of \$41.5 million and current liabilities of \$2.9 million.
- During 2020, total operating revenues were \$248.5 million compared to \$241.5 million in 2019. The increase is mainly due to recovery in demand post hurricanes Irma and Maria which devastated the Territory's economy in fiscal year 2018. All revenue categories improved appreciably while bad debts changed marginally in 2020.
- Operating expenses, excluding depreciation, amortization, disposals and fuel expense were \$103.5 million for the year ended June 30, 2020, a decrease of \$14.9 million compared to the year ended June 30, 2019. The decrease was primarily due to decreases in distribution expenses of \$17.5 million (labor costs related to diminished restoration efforts), plus a decline in administrative and general expenses of \$1.2 million tempered by an increase in operations and maintenance expenses of \$3.6 million (cost of leased production equipment).
- Capital grants and contributions received by the Electric System were \$133.3 million in fiscal year 2020 compared to \$349.2 million in fiscal year 2019. These mainly represent grant funding from the Federal Emergency Management Agency (FEMA) for reconstruction and hardening of the transmission and distribution system.

Financial Highlights - 2019

- Net position increased by \$268.9 million from a \$47.9 million deficit as a result of fiscal year 2019 operations.
- Current assets increased from \$135.3 million to \$154.3 million. This was primarily due to an increase in grants receivable of \$43.2 million, prepayments of \$3.0 million plus unbilled revenues which grew by \$8.8 million, offset by decreases in fuel oil and materials and supplies inventories of \$6.9 million and decreases in derivatives investments of \$12.6 million.
- Other non-current assets increased by \$7.4 million, due primarily to a combination of an increase in fuel costs recoverable of \$18.1 million and offset by a decrease in Due from Water System of \$4.9 million and non-current Virgin Islands Government receivables of \$5.8 million.
- Capital assets increased from \$928.6 million in 2018 to \$1,254.2 million in 2019. This was primarily due to an increase of \$77.1 million in utility plant in service, non-depreciable assets of \$275.7 million offset by \$27.0 million in depreciation. The increase is mainly attributed to reconstruction efforts post Hurricanes Irma and Maria in September 2017. Additional information on capital assets can be found in Note 5.
- Total deferred outflows of resources decreased from \$58.1 million in 2018 to \$34.7 million in 2019.

Electric System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

- The fuel costs recoverable balance increased by \$18.1 million to \$28.7 million in 2019 as the Levelized Energy Adjustment Clause (LEAC) permitted by the PSC was not sufficient to allow recovery of a significant amount of the Authority's cost of fuel during the year.
- Total liabilities have increased by \$44.3 million to \$1,257.0 million in 2019 mainly due to increases in payables and accrued liabilities of \$68.8 million, increase of \$6.9 million in due to other governments, and current installments of capital lease obligations of \$1.5 million, tempered by decreases in long-term borrowing of \$6.8 million and pension related liabilities of \$29.3 million.
- During 2019, total operating revenues were \$241.5 million compared to \$133.7 million in 2018. The increase is mainly due recovery in demand post hurricanes Irma and Maria which devastated the Territory's economy in fiscal year 2018. All revenue categories improved sharply. Understandably, bad debts climbed to \$3.0 million from \$2.8 million in 2018.
- Operating expenses, excluding depreciation, amortization, disposals and fuel expense were \$117.9 million for the year ended June 30, 2019; a decrease of \$19.5 million compared to the year ended June 30, 2018. The decrease was primarily due to decreases in distribution expenses of \$15.1 million as well as a \$8.7 million decrease in administrative expenses.
- Capital grants and contributions received by the Electric System were \$349.2 million in fiscal year 2019 compared to \$414.2 million in fiscal year 2018. These mainly represent grant funding from the Federal Emergency Management Agency (FEMA) for debris removal and reconstruction of the distribution grid.

Overview of the Financial Statements

Statement of Net Position

This statement includes all of the Electric System's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, and provides information about the nature and amount of investments in resources (assets) and the obligations to Electric System's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Electric System and assessing the liquidity and financial flexibility of the Electric System.

Statement of Revenues, Expenses, and Changes in Net Position

All of the current year's revenues and expenses are accounted for in this statement. This statement measures the success of the Electric System's operations over the past year and can be used to determine whether the Electric System has successfully recovered all its costs through its user fees and other charges, and maintained profitability and creditworthiness.

Electric System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

Statement of Cash Flows

The primary purpose of this statement is to provide information about the Electric System's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balances during the reporting period?"

Notes to the Financial Statements

The notes provide additional information that is essential to fully understanding the data provided in the financial statements. The notes to the financial statements can be found on pages 19-56 of this report.

Financial Analysis of the Authority's Electric System

One of the most important questions asked about the Electric System's finances is: "Is the Electric System better off or worse off as a result of the fiscal year's activities?" The statements of net position and the statements of revenues, expenses, and changes in net position report information about the activities of the Electric System in a way that will help answer this question.

These two statements report the net position of the Electric System and the changes in them. You can think of the Electric System's net position - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the Electric System's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors, such as changes in economic conditions, customer growth, and new or changed legislation and regulation, to gauge overall changes in financial health.

Electric System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

The table below provides a comparative review of key statement of net position captions.

<i>As of June 30,</i>	2020	2019	2018
Current assets	\$ 154,546,078	\$ 154,277,033	\$ 135,324,806
Restricted assets	78,636,456	66,180,960	63,966,058
Other non-current assets	18,382,554	40,386,499	32,916,135
Net capital assets	1,353,163,550	1,254,179,344	928,578,920
Deferred outflows of resources	59,964,147	34,708,999	58,059,338
Total assets and deferred outflows of resources	\$ 1,664,692,785	\$ 1,549,732,835	\$ 1,218,845,257
Long-term debt	\$ 342,612,024	\$ 384,156,473	\$ 390,939,499
Other liabilities	915,851,881	872,859,817	821,816,509
Total liabilities	1,258,463,905	1,257,016,290	1,212,756,008
Deferred inflows of resources	82,052,233	71,641,692	53,949,735
Net investment in capital assets	1,072,116,499	958,802,158	610,287,543
Restricted	31,968,250	25,387,338	22,718,048
Unrestricted (deficit)	(779,908,102)	(763,114,643)	(680,866,077)
Total net position	324,176,647	221,074,853	(47,860,486)
Total liabilities, deferred inflows of resources, and net position	\$ 1,664,692,785	\$ 1,549,732,835	\$ 1,218,845,257

At June 30, 2020, the Electric System had total assets and deferred outflows of resources of \$1,664.7 million of which \$1,353.2 million or 81.2% represents net capital assets. Grant funds and bond financing have been largely instrumental in acquiring these assets, with \$417.4 million in long-term debt and lines of credit balances outstanding at June 30, 2020. Correspondingly, grants income reached \$133.3 million in 2020.

Electric System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

Changes in net position can be seen by reviewing the following condensed statements of revenues, expenses, and changes in net position.

<i>Years ended June 30,</i>	2020	2019	2018
Base revenues	\$ 138,718,654	\$ 107,333,458	\$ 72,954,786
Fuel escalator revenues	95,026,519	117,455,074	50,719,027
Investment earnings	356,116	563,445	362,602
Payment in lieu of taxes	396,469	379,592	266,224
Other income	14,372,389	16,364,101	9,716,010
Total revenues	248,870,147	242,095,670	134,018,649
Fuel	92,458,863	123,112,452	96,391,349
Operating expenses, excluding fuel, depreciation, amortization, and payment in lieu of taxes	103,002,977	117,861,786	137,360,543
Payment in lieu of taxes	500,000	500,000	500,000
Interest expense	49,813,979	39,422,819	41,001,044
Depreciation and amortization	31,980,671	30,383,682	20,091,353
Total expenses	277,756,490	311,280,739	295,344,289
Loss before capital grants and contributions and other items	(28,886,343)	(69,185,069)	(161,325,640)
Insurance recoveries (impairment loss) on capital assets	-	1,499,960	(99,778,613)
Investment derivative instruments (loss) gain	(1,315,784)	(12,574,470)	9,623,887
Capital grants and contributions	133,303,921	349,194,918	414,194,064
Increase in net position	103,101,794	268,935,339	162,713,698
Net position, beginning of year	221,074,853	(47,860,486)	(210,574,184)*
Net position, end of year	\$ 324,176,647	\$ 221,074,853	\$ (47,860,486)

*As restated for implementation of GASB Statement No. 75.

The Electric System's net position increased by \$103.1 million during the fiscal year ended June 30, 2020. Key elements of the increase are as follows:

- Total operating revenues increased by \$7.0 million as all revenue components reflected a small increase in sales as the economy continued to rebound from the fiscal year 2018 hurricanes devastation.
- Total operating expenses decreased by \$43.9 million primarily due to a decrease of \$30.7 million in fuel costs and a combined \$14.9 million decline in distribution, administrative and general expenses.
- Total non-operating expenses decreased by \$868 thousand primarily due to a favorable swing in investment derivative instruments of \$11.3 million offset by \$10.4 million increase in interest expense.

Electric System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

The Electric System's net position increased by \$268.9 million during the fiscal year ended June 30, 2019. Key elements of the increase are as follows:

- Total operating revenues increased by \$107.9 million as all revenue components reflected a sharp increase in sales as the economy continued to rebound from the fiscal year 2018 hurricanes devastation.
- Total operating expenses increased by \$17.5 million primarily due to an increase of \$26.7 million in fuel costs and depreciation of \$10.3 million and mostly tempered by a combined \$23.8 million decline in administrative and distribution expenses.
- Total non-operating expenses increased by \$20.4 million primarily due to an unfavorable swing in our investment derivative instruments of \$22.2 million offset by \$1.6 million decrease in interest expense.

Capital Asset and Debt Administration

Capital Assets

The Electric System's capital assets as of June 30, 2020, amounted to \$1,353.2 million (net of accumulated depreciation and property-related gains). These capital assets include land, generation, transmission and distribution systems, buildings and fixed equipment, furniture, fixtures, and equipment, and construction in progress. The table below provides the detail of capital assets, net of accumulated depreciation and property-related gains.

<i>June 30,</i>	2020	2019	2018
Land	\$ 4,654,206	\$ 4,654,206	\$ 4,654,206
Utility plant in service	675,446,142	671,069,075	617,914,597
Buildings and fixed equipment	136,066,477	136,622,055	154,295,900
Furniture, fixtures, and equipment	7,986,574	8,945,334	8,470,084
Construction in progress	523,310,151	427,188,674	137,544,133
Idle assets	5,700,000	5,700,000	5,700,000
Net utility plant	\$ 1,353,163,550	\$ 1,254,179,344	\$ 928,578,920

The continued substantial growth in capital assets relates to reconstruction in the aftermath of Hurricanes Irma and Maria in September 2017. This is an ongoing FEMA-funded project. Also, the Authority's fiscal year 2020 capital budget included investing \$644.8 million in capital projects. Additional information on capital assets can be found in Note 5.

Long-Term Debt

The Authority has no taxing power, and its obligations are not debts of the Government of the United States Virgin Islands or of the United States of America.

Electric System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

At June 30, 2020, the Electric System had total long-term debt outstanding (including current installments) of \$384.1 million, a net decrease of \$24.4 million from the prior year. The table below provides the detail of long-term debt.

<i>June 30,</i>	2020	2019	2018
Revenue bonds	\$ 177,890,000	\$ 190,750,000	\$ 203,570,000
Bond anticipation notes	66,225,000	66,225,000	48,725,000
RUS note	11,332,154	12,007,140	12,671,717
Capital lease obligation	126,323,441	136,985,797	146,123,455
Total	381,770,595	405,967,937	411,090,172
Plus unamortized bond premium	2,372,431	2,556,554	2,471,563
Total	\$ 384,143,026	\$ 408,524,491	\$ 413,561,735

The Authority's ability to incur long-term indebtedness is capped by Virgin Islands statute at \$750.0 million for the Electric and Water Systems combined. As of June 30, 2020, combined long-term debt amounts to approximately \$459.1 million. Additional information on long-term debt can be found in Note 7.

Coronavirus COVID-19 Pandemic

In December 2019, a novel strain of coronavirus, known as COVID-19, was reported which quickly spread around the globe, including the United States and its Territories. In March 2020, the Governor of the U.S. Virgin Islands declared a state of emergency due to COVID-19. The major challenges to the Electric system were related to the suspension of late fees and disconnections during the latter half of fiscal year 2020. Customers were consequently slow paying, directly impacting cash flows. As emergency measures are eased, management continues to actively monitor the evolving impact of the outbreak which has been further compounded by inflation, especially material and fuel costs, continuing unabated to date.

Requests for Information

This financial report is designed to provide a general overview of the Electric System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Virgin Islands Water and Power Authority, P.O. Box 1450, St. Thomas, USVI 00804.

Financial Statements

Electric System of the Virgin Islands Water and Power Authority

Statements of Net Position

June 30,	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,924,902	\$ 9,568,248
Accounts receivable:		
Customers and other, net	10,575,587	9,361,292
Virgin Islands Government	9,286,145	8,077,112
Virgin Islands Government, fuel tax receivable	1,680,410	1,902,128
Grants receivable	76,893,682	79,843,428
Unbilled revenues	20,732,594	16,268,416
Inventories:		
Fuel oil	4,937,298	5,494,110
Materials and supplies	10,268,967	9,956,923
Prepayments and other current assets	15,246,493	12,489,592
Investment derivative instruments	-	1,315,784
Total current assets	154,546,078	154,277,033
Restricted assets:		
Cash and cash equivalents	33,248,810	21,484,963
Investments	35,121,413	35,544,389
Due from unrestricted assets	10,266,233	9,151,608
Total restricted assets	78,636,456	66,180,960
Other non-current assets:		
Virgin Islands Government accounts receivable	343,160	11,213,894
Fuel costs recoverable	18,039,394	28,750,922
Due from Water System	-	421,683
Total other noncurrent assets	18,382,554	40,386,499
Capital assets:		
Utility plant in service	1,136,952,594	1,102,109,194
Less accumulated depreciation	(317,453,401)	(285,472,730)
Net utility plant in service	819,499,193	816,636,464
Non-depreciable assets	533,664,357	437,542,880
Net capital assets	1,353,163,550	1,254,179,344
Deferred Outflows of Resources		
Pension related outflows	59,501,637	34,251,133
OPEB outflows	462,510	457,866
Total deferred outflows of resources	59,964,147	34,708,999
Total assets and deferred outflows of resources	\$ 1,664,692,785	\$ 1,549,732,835

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Electric System of the Virgin Islands Water and Power Authority

Statements of Net Position (continued)

June 30,	2020	2019
Liabilities, Deferred Inflows of Resources, and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 396,419,278	\$ 415,135,184
Customer deposits	27,877,617	27,856,004
Due to Federal Emergency Management Agency	4,142,493	4,142,493
Due to other Governments	14,990,148	6,948,431
Lines of credit	33,261,576	27,322,158
Current installments on capital lease obligation	12,441,463	10,662,356
Total current liabilities	489,132,575	492,066,626
Liabilities payable from restricted assets:		
Current installments on long-term debt	29,089,539	13,705,662
Accrued interest payable	11,619,183	9,821,622
Insurance surcharge reserve	8,700,259	8,700,259
Due to restricted assets	10,266,233	9,151,608
Total liabilities payable from restricted assets	59,675,214	41,379,151
Long-term debt:		
Revenue bonds, excluding current installments	164,425,000	177,890,000
Bond anticipation notes, excluding current installments	51,460,000	66,225,000
Rural Utilities Service note, excluding current installments	10,472,615	11,161,478
Unamortized bond premiums	2,372,431	2,556,554
Capital lease obligation, excluding current installments	113,881,978	126,323,441
Total long-term debt	342,612,024	384,156,473
Long-term liabilities:		
Net pension liability	239,525,862	216,281,277
Net OPEB liability	44,427,237	48,132,763
Due to Water System	8,090,993	-
Interfund advance from Water System	75,000,000	75,000,000
Total long-term liabilities	367,044,092	339,414,040
Total liabilities	1,258,463,905	1,257,016,290
Deferred inflows of resources:		
Pension related inflows	72,188,815	65,491,648
OPEB inflows	9,863,418	6,150,044
Total deferred inflows of resources	82,052,233	71,641,692
Net position:		
Net investment in capital assets	1,072,116,499	958,802,158
Restricted	31,968,250	25,387,338
Unrestricted (deficit)	(779,908,102)	(763,114,643)
Total net position	324,176,647	221,074,853
Total liabilities, deferred inflows of resources, and net position	\$1,664,692,785	\$ 1,549,732,835

See accompanying notes to financial statements.

Electric System of the Virgin Islands Water and Power Authority

Statements of Revenues, Expenses, and Changes in Net Position

<i>Years ended June 30,</i>	2020	2019
Operating Revenues		
Electricity sales to customers	\$ 107,918,444	\$ 82,781,826
Electricity sales to Virgin Islands Government	30,800,210	24,551,632
Fuel escalator revenues	95,026,519	117,455,074
OPEB surcharge	664,492	-
Maintenance surcharge	5,922,597	13,757,920
Payment in lieu of taxes surcharge	396,469	379,592
Leased generation surcharge	7,308,137	1,997,398
Line loss surcharge	522,986	1,215,116
Other operating revenues	3,000,199	2,375,388
Bad debt expense	(3,046,022)	(2,981,721)
Total operating revenues	248,514,031	241,532,225
Operating and Production Expenses		
Production:		
Fuel	92,458,863	123,112,452
Operations and maintenance	43,627,797	39,997,736
Total production expenses	136,086,660	163,110,188
Distribution	7,998,358	25,500,642
Customer service	5,448,297	5,218,746
Administrative and general	45,928,525	47,144,662
Payment in lieu of taxes	500,000	500,000
Depreciation and amortization	31,980,671	30,383,682
Total operating and production expenses	227,942,511	271,857,920
Operating income (loss)	20,571,520	(30,325,695)
Nonoperating Revenues (Expenses)		
Investment derivative instruments loss	(1,315,784)	(12,574,470)
Interest expense	(49,813,979)	(39,422,819)
Investment earnings	356,116	563,445
Total nonoperating expenses	(50,773,647)	(51,433,844)
Change in net position, before capital grants and contributions and special item	(30,202,127)	(81,759,539)
Capital grants and contributions	133,303,921	349,194,918
Insurance recoveries on capital assets	-	1,499,960
Increase in net position	103,101,794	268,935,339
Net position, beginning of year	221,074,853	(47,860,486)
Net position, end of year	\$ 324,176,647	\$ 221,074,853

See accompanying notes to financial statements.

Electric System of the Virgin Islands Water and Power Authority

Statements of Cash Flows

Years ended June 30,	2020	2019
Cash Flows from Operating Activities		
Receipts from customers	\$ 252,497,259	\$ 252,539,840
Payments to suppliers	(165,319,213)	(332,953,055)
Payments to employees	(24,623,138)	(24,892,682)
Net cash provided by (used in) operating activities	62,554,908	(105,305,897)
Cash Flows from Noncapital Financing Activities		
Interest paid on lines of credit	(1,207,473)	(1,576,918)
Net cash used in noncapital financing activities	(1,207,473)	(1,576,918)
Cash Flows from Capital and Related Financing Activities		
Proceeds from long-term debt	-	17,500,001
Principal paid on long-term debt	(13,534,986)	(13,484,577)
Interest paid on long-term debt	(13,158,384)	(13,566,118)
Interest paid on customer deposits/other	(56,315)	(41,831)
Acquisition and construction of capital assets	(139,853,351)	(187,464,835)
Payments of capital lease obligation	(29,405,555)	(5,473,090)
Proceeds from insurance recoveries	-	1,499,960
Capital grants and contributions received	141,002,565	305,848,100
Net cash (used in) provided by capital and related financing activities	(55,006,026)	104,817,610
Cash Flows from Investing Activities		
Interest received	356,116	563,445
Purchases, sales, and maturities of investments, net	422,976	(640,161)
Net cash provided by (used in) investing activities	779,092	(76,716)
Net change in cash and cash equivalents	7,120,501	(2,141,921)
Cash and cash equivalents, beginning of year	31,053,211	33,195,132
Cash and cash equivalents, end of year	\$ 38,173,712	\$ 31,053,211

Continued on next page.

Electric System of the Virgin Islands Water and Power Authority

Statements of Cash Flows (continued)

Years ended June 30,	2020	2019
Cash and Cash Equivalents		
Unrestricted	\$ 4,924,902	\$ 9,568,248
Restricted	33,248,810	21,484,963
	\$ 38,173,712	\$ 31,053,211
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 20,571,520	\$ (30,325,695)
Adjustments to reconcile operating income (loss) to net cash provided by (used) in operating activities:		
Depreciation and amortization	31,980,671	30,383,682
Changes in operating assets and liabilities:		
Accounts receivable, net	3,983,228	11,007,615
Inventories	244,768	6,897,505
Prepayments and other current assets	(2,756,901)	(2,981,237)
Due from/to Water System	8,512,676	4,886,686
Fuel costs recoverable	10,711,528	(18,121,664)
Accounts payable and accrued liabilities	(23,450,364)	(125,468,099)
Due to other Governments	8,041,717	6,948,431
Customer deposits	21,613	(319,267)
Net pension liability	23,244,585	(31,109,310)
Net OPEB liability	(3,705,526)	1,853,160
Deferred outflows of resources	(25,255,148)	23,350,339
Deferred inflows of resources	10,410,541	17,691,957
Net cash provided by (used in) operating activities	\$ 62,554,908	\$ (105,305,897)
Noncash Capital and Related Financing Activities		
Acquisition of capital assets in accounts payable and accrued liabilities	\$ 164,026,083	\$ 168,519,271
Payments of capital lease obligation in accounts payable	\$ 67,903,475	\$ 66,109,030

See accompanying notes to financial statements.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Virgin Islands Water and Power Authority (the Authority) is an instrumentality created by the government of the United States Virgin Islands (the Government) in 1964. The Authority was created to operate an electric generation and distribution system (the Electric System) and a water production and distribution system (the Water System) in the United States Virgin Islands. The Authority is governed by a nine-member board, three of whom are appointed by the Governor of the Virgin Islands from his Cabinet, and six of whom are nominated by the Governor of the Virgin Islands and confirmed by the Virgin Islands Legislature. As such, the Government has determined that the Authority is a component unit. The Water and Electric Systems are separately financed and each system's indebtedness is repayable from its net revenues. The Authority is required by its bond resolutions to maintain separate accounting for each system. Each system is a major fund of the Authority for financial reporting purposes.

The Electric System of the Authority accounts for all activities associated with the generation and distribution of electricity to customers. The accompanying financial statements include only the financial activities of the Electric System major fund and are not intended to present fairly the financial position and changes in net position of the Authority.

Measurement Focus and 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.

In accordance with the Electric System Revenue Bond Resolution (Bond Resolution), rates are designed to cover debt service, capital expenditures, and other operating expense requirements, excluding depreciation and other noncash expense items. This method of rate setting results in costs being included in the determination of rates in different periods rather than when these costs are recognized for financial statement purposes.

Rates and Regulations

The Authority is regulated by the Virgin Islands Public Services Commission (PSC or the Commission). The Commission has the authority to approve, modify, or deny any proposed rate changes made by the Authority.

The Authority is further subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which address accounting rules for regulated operations. This standard allows regulated entities such as the Authority to record certain assets or liabilities as a result of the regulated ratemaking process.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Regulatory assets generally represent incurred costs that have been capitalized because such costs are probable of future recovery in customer rates and for the Electric System, these include fuel costs recoverable.

Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred or items that will be credited to customers in future periods and for the Electric System, these include the insurance surcharge reserve. At June 30, 2020 and 2019, the Electric System had \$18.0 million and \$28.8 million, respectively of regulatory assets and \$8.7 million of regulatory liabilities in both years.

In order for a rate-regulated entity to continue to apply the provisions of GASB Statement No. 62, it must meet the following three criteria: (1) the enterprise's rates for regulated services provided to customers must be established by an independent 3rd party regulator or its own governing board empowered by a statute to establish rates that bind customers, (2) the regulated rates must be designed to recover the specific enterprise's costs of providing the regulated services, and (3) in the view of the demand for the regulated services and level of competition, it is reasonable to assume that rates, set at levels that will recover the enterprise's costs, can be charged and collected from customers.

Management believes that the Authority currently meets the criteria for continued application of GASB Statement No. 62, but will continue to evaluate significant changes in the regulatory and competitive environment to assess the ability to continue to apply GASB Statement No. 62. If the Authority no longer applied GASB Statement No. 62 due to competition, regulatory changes, inadequate rates, or other reasons, the Authority would make certain adjustments that would include the write-off of all or a portion of its regulatory assets and liabilities, the evaluation of utility plant, contracts, and commitments, and the recognition, if necessary, of any losses to reflect market conditions.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, bank demand accounts, money market accounts, certificates of deposit, and overnight repurchase agreements. The Authority considers all investments with an original maturity of three months or less to be cash equivalents.

Inventories

Fuel oil, materials, and supplies inventories are stated at cost using the weighted-average unit cost method, which approximates the first-in, first-out method. Obsolete and unusable inventory is reduced to estimated salvage value. The cost of fuel oil used for electric generation is charged to expense as consumed.

Prepayments and Other Current Assets

Prepayments and other current assets consist primarily of amounts paid by the Authority for services not yet provided by vendors, which primarily relate to property and liability insurance.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Investments

Investments are reported at fair value in the accompanying Statements of Net Position. All changes in the fair value of investments are recognized as gains or losses in the Statements of Revenues, Expenses, and Changes in Net Position.

Inter-System Transactions

As of June 30, 2020 and 2019, the Electric System had a payable due to the Water System of \$8.1 million and receivable of \$422 thousand, respectively, as a result of transfer of cash to pay for fuel costs incurred and other allocated operating, maintenance, and administrative expenses.

Furthermore, in order to fund its working capital needs in the aftermath of the hurricanes, the Authority obtained \$75.0 million under the Community Disaster Loan program administered by FEMA. This loan is secured as a first lien of the Water System's revenues. The proceeds of these loans were used to provide working capital mostly for fuel invoices, payroll, and other critical operating expenses. While the loan is reflected under the Water System, the payment of principal and interest is subject to an intercompany agreement whereby 17% will be allocated to the Water System and 83% to the Electric System.

These intersystem balances are noninterest-bearing and have no set repayment date. The Electric System has classified these balances as noncurrent because it did not expect to collect or pay such amounts within 12 months of the respective fiscal year-ends.

Capital Assets

Capital assets are recorded at cost, which includes material, payroll-related costs, overhead, and an allowance for borrowed funds used during construction. Expenditures of \$1,000 or more are capitalized. Maintenance and repairs are charged to operating expense as incurred. The cost of depreciable plant retired is eliminated from the utility plant accounts, and such costs, plus cost of removal less salvage, are charged to accumulated depreciation.

Depreciation of capital assets is computed using the straight-line method over estimated service lives ranging from 5 to 40 years. Depreciation expense was equivalent to 2.81% and 2.76% of average depreciable property for the years ended June 30, 2020 and 2019, respectively.

In accordance with accounting principles generally accepted in the United States of America, management reviews the estimated useful lives of capital assets on a periodic basis. The results of an engineering condition assessment and depreciation rate review indicated the lives of certain utility plant assets were longer than the estimated useful lives used for depreciation purposes in the Electric System's financial statements. As a result, effective July 1, 2013, estimates of the useful lives were changed to better reflect the estimated periods during which these assets will remain in service.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

The Authority also 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.

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 for the Electric System consist of unrecognized items not yet charged to pension expense and OPEB expense and contributions from the employer after the measurement date but before the end of the employer's reporting period, as may be applicable.

Compensated Absences

The Authority accrues for compensated absences in accordance with accounting principles generally accepted in the United States of America. The Authority allows vesting of permanent employee annual leave, which is governed by the period of employment. Vested annual leave in excess of 480 hours is transferred to the Employees' Retirement System of the Government of the Virgin Islands (GERS) for retirement service credit.

Customer Deposits

All nongovernmental customers pay a deposit upon application for service. The deposit varies based on the class of customer and is not refundable until the customer account is terminated. The deposits previously accrued interest at 4.75% annually. On September 20, 2016, the Virgin Islands Legislature passed Act 7931 into law, which reduced the interest earned on customer deposits compounded annually from 4.75% to a rate equal to the average prevailing interest rate paid by local banks on saving accounts. This will assist in lowering the financial obligation of the Authority.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and 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 GERS. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Also see Note 8.

Net Other Postemployment Benefits (OPEB) Liability

The Authority provides certain postemployment health care benefits to retired employees under a single employer health insurance plan (OPEB plan). The Authority has an established trust for its OPEB obligations (OPEB Trust) that is held by an independent custodian. The OPEB Trust issues a stand-alone financial report.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

The Authority's net OPEB liability as of June 30, 2020 and June 30, 2019, was measured using an actuarial valuation date of June 30, 2019 and June 30, 2017, respectively. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expenses, information about the fiduciary net position of the OPEB Trust, and additions to/deductions from the OPEB Trust's fiduciary net position have been determined on the same basis as they are reported by the Authority's OPEB plan as of the same measurement date. For this purpose, the Authority's OPEB plan recognizes benefit payments when due and payable in accordance with the benefit terms.

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 of 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.

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 for the Electric System consist of the unamortized portion of the net differences between projected and actual earnings on pension plan and OPEB plan investments, changes in assumptions, changes in proportionate share of pension, and other differences between expected and actual experience.

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on its use, either through legislation or external restrictions imposed by creditors, grantors, laws, or regulations. Unrestricted net position consists of assets which do not meet the definition of the two preceding categories.

Revenue Recognition

Revenues are recorded as service is provided to customers. The Electric System accrues the nonfuel portion of base revenues for services rendered but unbilled. The cost of fuel for the Electric System is passed directly through to its customers. Every six months, the Commission establishes a Levelized Energy Adjustment Clause (LEAC) rate that is designed to true-up the fuel costs recovered through the Electric System's base rates.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

If the amount recovered through rates exceeds actual fuel costs, the Electric System records fuel costs refundable as a regulatory liability, plus interest at 8.75%, for amounts to be refunded through future rate adjustments over the following six-month period. If the amount recovered through rates is less than the actual fuel costs, the Electric System records fuel costs recoverable as a regulatory asset, without interest, for amounts to be collected through future rates, generally over the following six-month period.

The Electric System distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering electricity in connection with the Electric System's principal ongoing operations. The principal operating revenues for the Electric System are charges to customers for sales and services. Operating expenses for the Electric System include the cost of sales and services, administrative expenses, and depreciation on utility plant. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Capital Grants and Contributions

The United States Government and the Virgin Islands Government appropriate and make available to the Authority grant funds for the construction and improvement of electric generation and distribution facilities. The assets and revenues arising from government grants are recorded when the Authority meets the eligibility requirements. If resources are received in advance of satisfying certain eligibility requirements, the recognition of revenues is deferred.

The Authority also receives capital contributions from customers (nongovernment) for construction and improvement of the facilities. The Authority maintains ownership and operation of the facilities. Beginning in 2015, the Electric System received funds from the Virgin Islands Water and Power Authority Generating and Infrastructure Fund, based on fuel taxes collected by the Virgin Islands Government. The proceeds are kept in a restricted Fuel Tax Fund for use in certain capital improvements. Also see Note 4.

For the years ended June 30, 2020 and 2019, the Electric System recognized capital grants and contributions of \$128.6 million and \$343.9 million, respectively, from the United States Government and \$4.7 million and \$5.3 million, respectively from the Virgin Islands Government.

Cost Allocation

The Water and Electric Systems share administrative and operating personnel. Payroll and a substantial portion of other operating expenses are initially incurred by the Electric System and are subsequently allocated to the Water System based on labor costs and hours. The operating costs allocated to the Water System for the years ended June 30, 2020 and 2019, amounted to \$4.8 million and \$5.5 million, respectively.

Expenses incurred for common or integrated facilities are allocated between the systems using an engineering study that is based on monthly production statistics and the Water System's power consumption. The production costs allocated to the Water System for the years ended June 30, 2020 and 2019, amounted to \$2.5 million and \$2.6 million, respectively.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Commitments and Contingencies

The Authority accrues liabilities for loss contingencies, including deductibles for insurance claims and environmental remediation costs, arising from claims, assessments, litigation, fines and penalties, and other sources when it is probable that a liability has been incurred and the amount of the claim, assessment, and/or remediation can be reasonably estimated.

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.

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified to conform with the 2020 presentation.

Adoption of Accounting Pronouncements

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the Authority's financial statements for the year ended June 30, 2020. The Authority has evaluated this Statement and has determined there is no impact on the financial statements, as it does not own any types of tangible capital assets which have a legal obligation to perform future asset retirement activities.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement improves consistency in the information that is disclosed in notes to the financial statements related to debt, including direct borrowings and direct placements and it provides additional essential information about debt to the user of the financial statements. The requirements of this Statement are effective for the Authority's financial statements for the year ended June 30, 2020. The Authority has evaluated this Statement and has included the required information in Notes 6 and 7.

Following are statements issued by GASB that are effective in future years. In light of the COVID-19 pandemic, on May 8, 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, to provide relief to governments. This Statement, which was effective upon issuance, postpones the effective dates of certain provisions in these upcoming pronouncements for one year, except for GASB Statement No. 87 which is postponed for eighteen months. Certain provisions of GASB Statement No. 92 are excluded from GASB Statement No. 95 along with provisions in GASB Statement No. 93 related to lease modifications.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

GASB Statement No.		Adoption Effective in Fiscal Year (as Revised)
84	Fiduciary Activities	2021
87	Leases	2022
89	Accounting for Interest Cost Incurred Before the End of a Construction Period	2022
90	Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61	2021
91	Conduit Debt Obligations	2023
92	Omnibus 2020	2022
93	Replacement of Interbank Offered Rates	2022
96	Subscription-Based Information Technology Agreements	2023
97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32	2022

Following are statements issued by GASB that are effective in future years as based on the original effective dates.

GASB Statement No.		Adoption Effective in Fiscal Year
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	2023
98	The Annual Comprehensive Financial Report	2022

Earlier application of all standards is permitted to the extent specified in each pronouncement as originally issued. The Authority is currently evaluating the impact of these statements.

2. Deposits and Investments

In accordance with its policies and the Revenue Bond Resolution, the Authority is authorized, with certain restrictions, to invest in open accounts, time deposits, certificates of deposit, repurchase agreements, obligations of the United States government, and obligations of any state within the United States, mutual funds, and corporate commercial paper.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

At June 30, 2020 and 2019, the Electric System had approximately \$35.1 million and \$35.5 million in investments which were invested in a U.S. Governmental Agency Fund with a AAAm rating and a maturity of less than a year. The Electric System held certificate of deposits of approximately \$1.4 million as of June 30, 2020 and 2019, respectively, with a maturity date of less than a year. Cash deposits were \$36.8 million and \$29.6 million as of June 30, 2020 and 2019, respectively.

Interest Rate Risks - As a means of limiting its exposure to fair value losses from rising interest rates, the Authority has an investment practice for operating funds which is structured to provide sufficient liquidity to pay obligations as they come due and (1) limits 80% of investments to not more than one-year maturities and (2) requires that the portfolio have no more than 20% in securities maturing in or having an average life of more than ten years. Bond proceeds and reserve funds are managed in accordance with bond covenants and funding needs which could result in maturities longer than ten years.

Credit Risks and Concentration of Credit Risks - As of June 30, 2020, the Electric System's exposure to credit risk is evaluated by the ratio of investments including deposits and investments in U.S. government securities, certificates of deposit, and cash deposits. The Authority places no limit on the amount the Electric System may invest in any one permitted investment type.

As of June 30, 2020, 47.9% of the Electric System's cash and investments are in U.S. Governmental Agency Funds, 1.9% are invested in certificates of deposit, and 50.2% are in cash deposits. As of June 30, 2019, 53.4% of the Electric System's cash and investments are in U.S. Governmental Agency Funds, 2.1% are invested in certificates of deposit, and 44.5% are in cash deposits.

At June 30, 2020, all of the Electric System's investments were held in the name of Bank of New York Mellon, as Trustee for the Authority.

Custodial Risks - Custodial credit risk is the risk that in the event of bank failure, the Authority's deposit 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. The Authority places both Water and Electric System cash and cash equivalents with some of the same high credit quality financial institutions that are federally insured. Therefore, in the event of a loss, federal insurance recoveries would have to be allocated among the two systems.

As such, the potential amounts held in excess of the FDIC limits for the Electric System were \$30.9 million at June 30, 2020. The Authority has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Fair Value Measurements

The Authority categorizes the fair market measurements of its investments and derivative instruments within the fair value hierarchy established which further provides the framework for measuring fair value by establishing a three-level fair value hierarchy that describes inputs that are used to measure assets and liabilities as follows:

- Level 1: Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that an organization can access at the measurement date.
- Level 2: Inputs are other than quoted prices included within Level 1 that are observable for an asset or liability, that are either directly or indirectly observable.
- Level 3: Inputs are significant unobservable units.

The fair value hierarchy gives the highest priority to Level 1 and the lowest priority to Level 3 inputs. If a price for an identical asset is not observable, an organization may evaluate fair market value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset is measured using inputs from more than one level of the fair market value hierarchy, the measurement is considered to be based on the lowest level input that is significant to the entire measurement.

The following section describes the valuation technique methodologies the Authority is utilizing to measure assets at fair value:

- Level 1: Investments classified within Level 1 are valued based on quotes obtained from active public exchanges or reported on the national market, and are stated at the last reported sales price on the day of valuation. Fair value of exchange-traded contracts is based upon exchange settlement prices.
- Level 2: Investments classified within Level 2 are valued by pricing vendors using outside data. In determining the fair value of the investments, the pricing vendors use a market approach and pricing spreads based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security. Ineffective derivative instruments have been classified in Level 2 of the fair value hierarchy and are valued using valuations provided by a third-party valuation service provider. Also see Note 10.

There were no investments subject to classification under the three-level fair value hierarchy as of June 30, 2020. Following is the three-level fair value hierarchy as of June 30, 2019:

	Level 1	Level 2	Level 3
Derivative instruments	\$ -	\$ 1,315,784	\$ -

The Authority has investments in U.S. Governmental Agency Funds measured at net asset value of \$35.1 million and \$35.5 million, as of June 30, 2020 and 2019, respectively and these allow for daily transactions with no unfunded commitments or redemption restrictions.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

3. Accounts Receivable

Accounts receivable, current and non-current, at June 30, 2020 and 2019, consists of the following:

	2020	2019
Customers	\$ 30,784,547	\$ 27,342,337
Other	1,433,899	878,036
Less allowance for doubtful accounts	(21,642,859)	(18,859,081)
Customers and other, net	10,575,587	9,361,292
Virgin Islands Government	9,629,305	19,291,006
Virgin Islands Government, fuel tax receivable	1,680,410	1,902,128
Grants	76,893,682	79,843,428
Unbilled revenues	20,732,594	16,268,416
Accounts receivable, net	\$ 119,511,578	\$ 126,666,270

The Government and its various instrumentalities have largely remained current regarding payment on outstanding receivable balances and have increased the percentage of remittances on current billings for services.

The Authority has made certain arrangements with specific governmental agencies concerning the collection of past due accounts receivable. As of June 30, 2020 and 2019, the Authority has classified Government accounts receivable of \$343 thousand and \$11.2 million, respectively, as noncurrent because these balances are expected to take longer than one year from the statement of net position dates to be paid by the various government agencies.

4. Restricted Assets

The Electric System Revenue Bond Resolution, as amended, and certain Commission regulatory orders establish the following funds and accounts, which are restricted as to their usage:

Construction Fund - Amounts in the Construction Fund represent unspent bond proceeds, which will be used to pay the cost of construction of plant and equipment used in the generation and distribution of electricity. The Construction Fund is held by the Authority.

Debt Service Fund - The Authority is required to make monthly deposits into the Debt Service Fund to accumulate the required debt service amounts payable to bondholders prior to the next respective interest and/or principal payment date. The Debt Service Fund is held by the bond trustee who makes the required payments on behalf of the Authority.

Debt Service Reserve Fund - The Authority is required to maintain a balance in the Debt Service Reserve Fund equal to the maximum annualized debt service requirement remaining on any outstanding revenue bonds. The Debt Service Reserve Fund is held by the bond trustee and was fully funded at June 30, 2020.

Cost of Issuance Fund - Amounts in the fund are used to pay for legal fees, underwriters' discounts, and other costs of issuing bonds. The Cost of Issuance Fund is held by the bond trustee who makes the required payments on behalf of the Authority.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Self-Insurance Reserve Fund - Amounts in the Self-Insurance Reserve Fund are used to cover any unexpected and uninsured losses caused by hurricanes or, upon prior petition to the Commission and approval, to fund bona fide hazard mitigation programs. The Self-Insurance Fund is held by the Authority.

The Commission authorized the Authority to borrow from the Self-Insurance Reserve Fund to augment its fuel and transmission and distribution inventory. As of June 30, 2020 and 2019, the Authority has not repaid any of the amounts borrowed. The unpaid balance of \$10.3 million and \$9.1 million respectively, is reflected as Due from Unrestricted Assets on the accompanying Statements of Net Position.

Fuel Tax Fund - Amounts in the fund are used for funding new energy and power generating units and/or heat recovery steam generators and assisting with the issuance of bonds. The Fuel Tax Fund is held by the Authority.

OPEB Fund - Amounts in the fund are used to cover the cost of other post-employment benefits. The OPEB Fund is held by the Authority. During 2017, funds were transferred from the OPEB Fund into a trust which will be used to pay the benefits. Also see Note 9.

Demand Side Management Fund - Amounts in the fund are used to pay for the costs of a demand side management study. The Demand Side Management Fund is held by the Authority.

Line Loss Fund - Amounts maintained in the Line Loss Fund are to be utilized for projects that address losses on the Electric System. The Line Loss Fund is held by the Authority.

RUS - Deposit Account Control Agreement (DACA) Fund - Amounts maintained in the RUS - DACA Fund are required to be maintained by the Authority under the RUS loan agreements to secure loan principal and interest payments. The DACA Fund is held by the Authority.

HRSB 6B Escrow - Funds are reserved for the use of modification and repairs of turbine unit #21. The HRSB 6B Escrow is held by the Authority.

Series 2017 BAN Escrow - Funds are reserved for payment of principal and interest due on the maturity date of the Series 2017 Bond Anticipation Notes which are secured by a first priority pledge of all collections of Fuel tax revenues.

Electric System revenues and all funds established by the Bond Resolution are pledged for payment of bond principal and interest. The trustee funds consist primarily of cash equivalents and investments in U.S. government securities stated at fair value. Other funds specified by the Bond Resolution and the Commission are primarily in cash and cash equivalents.

It is the Authority's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Restricted assets at June 30, 2020 and 2019, consist of the following:

	2020	2019
Construction Fund	\$ 766,108	\$ 1,962,489
Debt Service Fund	23,581,832	23,882,227
Debt Service Reserve Fund	16,893,909	19,559,683
Cost of Issuance Fund	1,607,425	554
Self-Insurance Reserve Fund	5,097,578	586,480
Fuel Tax Fund	10	10
OPEB Fund	613	610
Demand Side Management Fund	257,863	257,345
Line Loss Fund	4,166,053	192,569
RUS-DACA Fund	517,188	-
Due from Unrestricted Assets	10,266,233	9,151,608
HRSB 6B Escrow	200,000	200,000
Series 2017 BAN Escrow	15,281,644	10,387,385
	\$ 78,636,456	\$ 66,180,960

5. Capital Assets

Capital assets activity for the year ended June 30, 2020, was as follows:

Description	Beginning Balance	Additions	Transfers	Impairment, Disposals, and Other	Ending Balance
Non-depreciable assets:					
Land and land right	\$ 4,654,206	\$ -	\$ -	\$ -	\$ 4,654,206
Construction in progress	427,188,674	132,041,648	(31,524,885)	(4,395,286)	523,310,151
Idle assets	5,700,000	-	-	-	5,700,000
Total non-depreciable assets	437,542,880	132,041,648	(31,524,885)	(4,395,286)	533,664,357
Depreciable assets:					
Utility plant	1,102,109,194	3,318,515	31,524,885	-	1,136,952,594
Accumulated depreciation and amortization	(285,472,730)	(31,980,671)	-	-	(317,453,401)
Total depreciable assets, net	816,636,464	(28,662,156)	31,524,885	-	819,499,193
Capital assets, net	\$ 1,254,179,344	\$ 103,379,492	\$ -	\$ (4,395,286)	\$ 1,353,163,550

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Capital assets activity for the year ended June 30, 2019, was as follows:

Description	Beginning Balance	Additions	Transfers	Impairment, Disposals, and Other	Ending Balance
Non-depreciable assets:					
Land and land right	\$ 4,654,206	\$ -	\$ -	\$ -	\$ 4,654,206
Construction in progress	137,544,133	348,244,033	(58,599,492)	-	427,188,674
Idle assets	5,700,000	-	-	-	5,700,000
Total non-depreciable assets	147,898,339	348,244,033	(58,599,492)	-	437,542,880
Depreciable assets:					
Utility plant	1,035,769,629	7,740,073	58,599,492	-	1,102,109,194
Accumulated depreciation and amortization	(255,089,048)	(30,383,682)	-	-	(285,472,730)
Total depreciable assets, net	780,680,581	(22,643,609)	58,599,492	-	816,636,464
Capital assets, net	\$ 928,578,920	\$ 325,600,424	\$ -	\$ -	\$ 1,254,179,344

6. Lines of Credit

At June 30, 2020, the Authority has available bank lines of credit for \$13.0 million for capital projects and \$20.0 million for working capital purposes for the Electric System. In addition, the Authority has an unused credit facility reimbursement note for \$1.0 million. Interest on amounts borrowed is payable quarterly at a variable interest rate of prime plus 0.50%, or 90-days London Inter-Bank Offer Rate (LIBOR) plus 3.50%-4.50%.

The Authority has the option to select the variable interest rate to utilize for any borrowings on these notes. At June 30, 2020 and 2019, there was \$33.3 million and \$27.3 million outstanding under the lines of credit, respectively. The lines were extended to have a maturity of July 2022.

Furthermore, there are certain financial reporting covenants that the Authority must comply with. The agreements require the Authority to deliver audited financial statements within 180 days after the end of its fiscal year. The banks have granted the Authority a waiver from this requirement for the year ended June 30, 2020.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

7. Long-Term Liabilities

Long-term debt consists of the following at June 30:

	2020	2019
2003 Electric System Revenue Bonds, interest payable semiannually on January 1 and July 1 at various rates ranging from 4.00% to 5.00%; maturing in 2028	\$ 36,355,000	\$ 39,560,000
2007A Electric System Subordinated Revenue Bonds, interest payable semiannually on January 1 and July 1 at 5.00%; maturing in 2031	57,585,000	57,585,000
2010 Electric System Revenue and Refunding Bonds, interest payable semiannually on January 1 and July 1 at various rates ranging from 5.00% to 6.85%; maturing in 2035	43,415,000	44,300,000
2012 Electric System Revenue Refunding and Subordinated Revenue Bonds, interest payable semiannually on January 1 and July 1 at 4.00% to 6.06%; maturing in 2025	40,535,000	49,305,000
2017A Senior Bond Anticipation Notes, interest payable semiannually on January 1 and July 1 at 10.00%; maturing in 2020	14,765,000	14,765,000
2018B Senior Bond Anticipation Notes, interest payable semiannually on January 1 and July 1 at 7.00%; maturing in 2020	33,960,000	33,960,000
2018C Senior Bond Anticipation Notes, interest payable semiannually on January 1 and July 1 at 2.38% - 2.90%; maturing in 2033	17,500,000	17,500,000
Rural Utilities Service Note, interest payable quarterly on each March 31, June 30, September 30, and December 31 at 1.62%; maturing in 2035	11,332,154	12,007,140
Unamortized premium	2,372,431	2,556,554
Capital lease obligation	126,323,441	136,985,797
Total long-term debt	384,143,026	408,524,491
Less current installments	(41,531,002)	(24,368,018)
Long-term debt, excluding current installments	\$ 342,612,024	\$ 384,156,473

Revenue Bonds

In June 2003, the Authority issued \$69.9 million in Electric System Revenue Bonds, Series 2003. The proceeds from the bonds were used to finance capital improvements, repay \$18.0 million of then outstanding lines of credit, cover underwriters' costs, and establish a debt service fund.

The Series 2003 Bonds maturing on or after July 1, 2013, shall be subject to redemption prior to their stated maturity date, at the option of the Authority, on or after July 1, 2013, as a whole or in part at any time, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

Electric System of the Virgin Islands Water and Power Authority

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In June 2007, the Authority issued \$57.6 million in 2007A Electric System Subordinated Revenue Bonds. The proceeds of the Series 2007A Bonds were used to (1) finance costs of certain capital improvements, (2) refinance certain costs of capital improvements funded through draws on a line of credit and reinstatement of \$10.0 million to the line of credit allocable to the Electric System, (3) make certain required deposits to the subordinated Debt Service Reserve Fund, and (4) pay certain costs of issuance of the Series 2007A Bonds.

In March 2010, the Authority issued \$85.3 million in bonds made up as, \$39.1 million in 2010A Electric System Revenue Refunding Bonds, \$8.9 million in 2010B Electric System Revenue Bonds, and \$37.3 million in 2010C Electric System Revenue Bonds. The proceeds of the Series 2010A Bonds were used to refund a portion of the Authority's Electric System Revenue Refunding Bonds, Series 1998. The proceeds of the Series 2010B Bonds were used to finance certain capital expenditures temporarily funded through draws on a line of credit (\$9.0 million) and to make certain deposits into the Debt Service Revenue Fund sufficient to satisfy the Debt Service Reserve Fund requirement. The proceeds of the Series 2010C Bonds were used to fund a portion of the costs of certain capital improvements to the Electric System and to make certain deposits into the Debt Service Revenue Fund sufficient to satisfy the Debt Service Revenue Fund Requirement. The proceeds of the three series were also used to pay certain costs of issuance of the 2010A, 2010B, and 2010C Bonds.

In May 2012, the Authority issued \$69.1 million in bonds made up as, \$17.4 million in 2012A Electric System Revenue Refunding Bonds, \$19.7 million in 2012B Electric System Subordinated Revenue Bonds, and \$32.0 million in 2012C Electric System Subordinated Revenue Bonds. The proceeds of the Series 2012A Bonds were used to (1) refund the Authority's Electric System Revenue Refunding Bonds, Series 1998 and (2) pay certain costs of issuance of the Series 2012A Bonds. The proceeds of the Series 2012B Bonds were used to (1) refinance a portion of the Authority's Electric System Term Loan, (2) make a deposit into the Subordinated Debt Service Reserve Fund sufficient to satisfy the Series 2012B Subordinated Debt Service Reserve Fund Requirement, and (3) pay certain costs of issuance of the Series 2012B Bonds. The proceeds of the Series 2012C Bonds were used to (1) refinance all or a portion of the Electric System Working Capital Lines of Credit and Overdraft Credit Facility, (2) make a deposit into the Series 2012C Subordinated Debt Service Reserve Fund sufficient to satisfy the Subordinated Debt Service Reserve Fund Requirement, and (3) pay certain costs of issuance of the Series 2012C Bonds.

Bond Anticipation Notes (BAN)

In November 2016, the Authority closed on financing for \$33.9 million to fund the Streetlight conversion project (Series 2016A BAN). The funding provides for (1) acquisition, assembly, and installation of the light-emitting diode (LED) and solar panels, (2) engineering and project management, and (3) integration with the Authority's Tantalus "smart meter" network or automated metering infrastructure (AMI). The Authority issued the short-term BANs to fund the project because long term rates trended higher with the rating agency downgrades. The rate on the BANs was 5.50%, maturing November 15, 2018.

In August 2017, the Authority closed on financing for an additional \$14.8 million as part of the authorized \$85.0 million BANs (Series 2017A BAN) to fund startup costs for the acquisition and construction of six high-efficiency power generating units. The funding provided for (1) the design, engineering, procurement, construction, startup, and testing of the new power generating units (2) the financing of two centralized control rooms and operational centers on the islands of St. Thomas and St. Croix, (3) financing of capitalized interest, and (4) payment of costs of issuance.

Electric System of the Virgin Islands Water and Power Authority

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The rate on the BANs was 10.00%, maturing July 1, 2020. As such, on July 1, 2020, the 2017A BANs with an outstanding par value of \$14.8 million were retired utilizing fuel taxes and debt service funds already on deposit with the Trustee.

On November 14, 2018, the Authority's Board authorized the refinancing of the Series 2016A Subordinated BANs with its Series 2018B Senior BANs in the principal amount of \$33.9 million. The Streetlight conversion project is approximately 60.30% percent completed and all lights and solar panels were expected to be installed by August 2020. Also see Note 14.

On November 28, 2018, the Authority's Board authorized the issuance of Bond Anticipation Notes in a principal amount not to exceed \$30.0 million, the Series 2018C Bond Anticipation Notes. The 2018C BANs were being issued to evidence the debt in respect of a Community Disaster Loan made by the United States of America, acting through FEMA. The form of the Series 2018C BANs allows for multiple draws by the Authority. During year ended June 30, 2019, the Authority, under the Electric System, drew down \$17.5 million to provide additional working capital for fuel invoices, payroll, and other critical operating expenses. No additional draws were made in fiscal year 2020. The rate on the BANs was 2.38% - 2.90%, maturing July 1, 2033. Also see Note 14.

Rural Utilities Services (RUS) Note

In November 2015, the Authority obtained a term loan with the RUS in the principal amount of \$13.0 million. The proceeds of the loan were used to finance the acquisition and installation of an automated metering system and other costs related thereto.

Capital Lease Obligation

The Authority financed certain infrastructure services necessary to import, unload, receive, transfer, store, vaporize, measure, and deliver Liquefied Petroleum Gas (LPG) to each fuel header system at certain of its plants, as well as certain other infrastructure assets through the use of a lease. The project was designed to reduce the Authority's fuel costs by 30.00% and therefore, intended to allow for significant savings to the Authority's rate payers. The project was substantially completed during fiscal year 2017 and at the end of the lease term, title to all of the assets, constituting the new infrastructure, will be transferred to the Authority.

The following is a schedule of future minimum payments under this lease obligation, along with the present value of the related net minimum payments:

<i>Year Ending June 30,</i>	Principal	Interest	Total
2021	\$ 12,441,463	\$ 18,758,537	\$ 31,200,000
2022	14,517,428	16,682,572	31,200,000
2023	16,939,787	14,260,213	31,200,000
2024	19,766,337	11,433,663	31,200,000
2025	23,064,522	8,135,478	31,200,000
2026-2027	39,593,904	4,806,096	44,400,000
Total	\$ 126,323,441	\$ 74,076,559	\$ 200,400,000

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The assets acquired through the capital lease obligation at June 30, 2020 and 2019, are as follows:

Description	2020	2019
Utility plant in service	\$ 151,533,478	\$ 151,533,478
Construction in progress	-	4,383,261
Idle assets	4,083,261	4,083,261
Total	155,616,739	160,000,000
Less accumulated amortization	25,862,354	22,254,969
Capital lease assets, net	\$ 129,754,385	\$ 137,745,031

During fiscal year 2020, \$4.4 million of construction in progress was recognized as operating and production expenses. Also see Note 5.

Long-term Changes and Maturities

The following is a schedule of changes in long-term debt and related accounts for the year ended June 30, 2020:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 190,750,000	\$ -	\$ (12,860,000)	\$ 177,890,000	\$ 13,465,000
Bond Anticipation Notes	66,225,000	-	-	66,225,000	14,765,000
RUS Note	12,007,140	-	(674,986)	11,332,154	859,539
Unamortized premium	2,556,554	-	(184,123)	2,372,431	-
Capital lease obligation	136,985,797	-	(10,662,356)	126,323,441	12,441,463
Total long-term debt	\$ 408,524,491	\$ -	\$ (24,381,465)	\$ 384,143,026	\$ 41,531,002

The following is a schedule of changes in long-term debt and related accounts for the year ended June 30, 2019:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 203,570,000	\$ -	\$ (12,820,000)	\$ 190,750,000	\$ 12,860,000
Bond Anticipation Notes	48,725,000	51,460,000	(33,960,000)	66,225,000	-
RUS Note	12,671,718	-	(664,578)	12,007,140	845,662
Unamortized premium	2,471,562	84,992	-	2,556,554	-
Capital lease obligation	146,123,455	-	(9,137,658)	136,985,797	10,662,356
Total long-term debt	\$ 413,561,735	\$ 51,544,992	\$ (56,582,236)	\$ 408,524,491	\$ 24,368,018

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Future debt service requirements to maturity as of June 30, 2020, on the revenue bonds, bond anticipation notes and RUS note are as follows:

<i>Year Ending June 30,</i>	Principal	Interest	Total
2021	\$ 63,049,539	\$ 11,889,629	\$ 74,939,168
2022	14,801,124	10,175,084	24,976,208
2023	16,454,589	9,096,145	25,550,734
2024	17,086,413	8,042,049	25,128,462
2025	18,273,752	7,236,654	25,510,406
2026-2030	74,811,297	23,564,037	98,375,334
2031-2035	47,045,440	6,856,843	53,902,283
2036-2040	3,925,000	268,863	4,193,863
Total	\$ 255,447,154	\$ 77,129,304	\$ 332,576,458

Covenants

Under the terms of the Bond Resolution relating to the Electric System Revenue and Refunding Bonds, payment of the principal and interest is secured by an irrevocable lien on the Authority's net revenues (exclusive of any funds which may be established pursuant to the Bond Resolution for certain other specified purposes), including the investments and income, if any, thereof. Under the General Resolution, the Authority is required to maintain a Debt Service coverage ratio of at least equal to 1.25 times the principal and interest on all Outstanding Senior Bonds for the current and each future fiscal year (the Senior Coverage).

Under the Electric System Subordinated Revenue Bond Resolution, adopted by the Authority on May 17, 2007, as amended and supplemented (the Subordinated Bond Resolution), the Authority must satisfy the Debt Service coverage ratio of the General Resolution for the Senior Bonds, must maintain a Subordinated Debt Service coverage ratio at least equal to 1.15 times the principal of and interest on all Outstanding Bonds (the Senior and Subordinate Coverage) and all Outstanding Subordinated Bonds for the current and each future fiscal year, and must maintain at least 1.00 times the Maximum Aggregate Debt Service for each such fiscal year (total debt coverage).

The Authority's net electric revenues for the fiscal years ended 2020 and 2019, yielded the following coverage ratios:

	Requirement	2020	2019
Senior Coverage	125%	400%	140%
Senior and Subordinate Coverage	115%	270%	100%
Total Debt Coverage	100%	120%	40%

For the year ended June 30, 2019, the Authority's Debt Service Coverage ratio was 0.40 times for total Debt Coverage. Section 606(2) of the Resolution provided that if the Authority fails to achieve such 1.00 times coverage in a particular year, the Authority must "take whatever steps it can to produce the amount of net electric revenues required in the following fiscal year ..." Section 701 (3) of the Resolution relates to covenant defaults and makes them an event of default if such covenant default continues for 60 days after notice unless the Authority is proceeding with diligence to cure such default. The Authority notified the Trustees regarding non-compliance with the rate covenant as required under the bond resolutions.

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The Authority has taken all necessary actions to comply with its rate covenant under the bond resolutions inclusive of filing a revised base rate to increase the rates combined with the implementation of the Authority's Transformation Plan to allow the Authority to collect increased revenues. Additionally, as a result of the disruption to the Authority's operations from Hurricanes Irma and Maria, the Authority did not comply with certain reporting requirements. However, as per the Authority's bond resolutions and loan agreements, this does not constitute an event of default and the Authority continues to work diligently to monitor such requirements.

The Electric System Revenue Bonds are subject to mandatory redemption if (1) any significant part of the Electric System shall be damaged, destroyed, taken, or condemned or (2) any for-profit, nongovernmental investor shall acquire an ownership interest in some or all of the assets of the Authority.

8. Pension Plan

Following is a description of the pension plan and accounting for pension expense, liabilities, and deferred outflows/inflows of resources. 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*.

Plan Description and Benefits

Full time employees of the Authority are members of Government Employees' Retirement System of the U.S. Virgin Islands (GERS), a cost sharing, multiple-employer, defined benefit pension plan (the plan) established as of October 1, 1959 Title 3, Chapter 27 of the V.I. Code to provide retirement, death, and disability benefits. Benefits may be extended to beneficiaries of plan members.

The plan covers all employees of the Authority except employees compensated on a contract fee basis, casual, per diem or provisional and part time employees who work less than twenty (20) hours per week. Persons over the age of fifty-five (55) may opt out of the plan by providing formal notification to the plan. Vesting of benefits occurs after ten (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 Tier I employees who have completed thirty (30) years of credited service or have attained age sixty (60) with at least ten (10) years of credited service are eligible for a full-service retirement annuity. Regular Tier II employees who have attained age sixty-five (65) with at least ten (10) years of service are eligible for a full-service retirement annuity.

Members who are considered "safety employees " as defined in the Code are eligible for full-service retirement benefits under Tier I when they have earned at least twenty (20) years of government service or have reached the age of fifty-five (55) with at least ten (10) years of credited service.

Electric System of the Virgin Islands Water and Power Authority

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Under Tier II, safety employees are eligible for full retirement when they have earned at least twenty-five (25) years of government service and have reached age fifty-eight (58) or have reached age (60) with at least ten (10) years of service.

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation for regular and safety 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 regular and safety Tier II members is based on career average salary, 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.

In 1995, the Early Retirement Incentive Training and Promotion Act was amended by the Legislature to allow a member with a combined aggregate number of years of service and age of at least seventy-five (75) years to retire without a reduction in their annuity. Early retirement benefits provided under the Act vary depending upon age of retirement, type of employment, and credited years of service.

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 Government Employees' Retirement System of the U.S. Virgin Islands, 3438 Kronprindsens Gade, St. Thomas, Virgin Islands 00802.

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. On January 1, 2020, the employer contribution for Tier I and Tier II members was increased to 23.50%.

Employee contribution rates (as a percentage of payroll) for fiscal years 2020 and 2019 were as follows:

	<u>Tier 1</u>	<u>Tier 2</u>
Regular Employees	11.0%	11.5%
Public Safety Employees	13.0%	13.625%

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 Government have a September fiscal year end, which differs from the Authority's fiscal year end. GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined time frames.

Electric System of the Virgin Islands Water and Power Authority

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For this report, the following time frames are used:

	2020	2019
Valuation Date	October 1, 2019	October 1, 2018
Measurement Date	September 30, 2019	September 30, 2018
Measurement Period	October 1, 2018 - September 30, 2019	October 1, 2017 - September 30, 2018

The Authority is considered an employer of the plan with a proportionate share of 5.4300% and 6.2448% as of the measurement dates at September 30, 2019 and 2018, respectively. The Authority's percentage was estimated by management based on the average of each employer's contributions during the period October 1, 2014 through September 30, 2019. Management has determined an allocation percentage to apply to the Electric System and Water System based on those systems' employment burdens to the Authority as a whole (approximately 83% and 17%, respectively).

The Authority's proportionate share of employer contributions recognized by GERS was \$4.9 million and \$5.1 million for each of the plan's fiscal years ended September 30, 2019 and 2018, respectively. The Electric System's allocated share of employer contributions for the same periods were \$4.1 million and \$4.2 million, respectively.

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

As of June 30, 2020 and 2019, the Authority's proportionate share of the net pension liability of the plan was \$288.6 million and \$260.6 million, respectively, and the allocation to the Electric System was \$239.5 million and \$216.3 million, respectively. The net pension liability of the plan is measured as of September 30, 2019 and 2018, 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, 2019 and 2018, respectively.

For the years ended June 30, 2020 and 2019, the Authority recognized pension expense of \$5.6 million and \$13.6 million, respectively, inclusive of amortization of deferred outflows of pension related items. Of those amounts, \$4.7 million and \$11.3 million was allocated to the Electric System's pension expense, respectively.

Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Electric System in the computation of net pension liability for the year ended June 30, 2020:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 53,102,601	\$ 19,128,707
Net difference between projected and actual earnings on pension plan investments	135,794	-
Difference between expected and actual experience	2,955,408	110,949
Changes in proportionate share	-	52,949,159
Contributions made subsequent to measurement date	3,307,834	-
	\$ 59,501,637	\$ 72,188,815

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Electric System in the computation of net pension liability for the year ended June 30, 2019:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 25,424,981	\$ 26,934,270
Net difference between projected and actual earnings on pension plan investments	408,450	-
Difference between expected and actual experience	5,021,465	-
Changes in proportionate share	-	38,557,378
Contributions made subsequent to measurement date	3,396,237	-
	\$ 34,251,133	\$ 65,491,648

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 June 30,

2021	\$ (7,833,212)
2022	(2,405,143)
2023	(2,430,111)
2024	(1,305,286)
2025	(2,021,260)
Thereafter	-
	\$ (15,995,012)

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, 2019 and 2018 is provided below, including any assumptions that differ from those used in the corresponding October 1, 2019 and 2018 actuarial valuations. Refer to the October 1, 2019 and 2018 actuarial valuation reports for a complete description of all other assumptions, which can be found on GERS' website.

<i>September 30,</i>	2020	2019
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	4.00%	7.00%
Municipal Bond Yield	2.66%	4.18%
Discount Rate	2.67%	4.25%
Mortality Table	RP-2014 Blue Collar	RP-2014 Blue Collar

The demographic assumptions for the 2019 actuarial valuation are based on the results of an actuarial experience study for the period October 1, 2011 through September 30, 2015.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Investment Rate of Return

The long-term expected rates of return of 4.00% and 7.00% for the years ended 2019 and 2018, respectively, on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation, as of the measurement date at September 30, 2019, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	9%	6.23%
International equity	60%	0.98%
Fixed income	10%	4.33%
Cash	12%	0.48%
Alternative	9%	10.23%

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, 2018, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	29%	6.16%
International equity	12%	6.71%
Fixed income	27%	1.71%
Cash	2%	0.91%
Alternative	30%	5.50%

Discount Rate

The discount rate used to measure the total pension liability was 2.67% as of the measurement date at September 30, 2019, and 4.25% as of the measurement date at September 30, 2018. 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 4.00% 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 2.66% and 4.18% as of the measurement date at September 30, 2019 and 2018, respectively.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

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

The following presents the Electric System's allocation of the Authority's proportionate share of the net pension liability (NPL) for the plan, calculated using the discount rate, as well as what the Electric System's allocation of the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate for the year ended June 30, 2020:

1.00% Decrease - Share of NPL @ 1.67%	Share of NPL @ 2.67%	1.00% Increase - Share of NPL @ 3.67%
\$ 277,911,250	\$ 239,525,862	\$ 208,064,418

The following presents the Electric System's allocation of the Authority's proportionate share of the net pension liability (NPL) for the plan, calculated using the discount rate, as well as what the Electric System's allocation of the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate for the year ended June 30, 2019:

1.00% Decrease - Share of NPL @ 3.25%	Share of NPL @ 4.25%	1.00% Increase - Share of NPL @ 5.25%
\$ 248,782,654	\$ 216,281,277	\$ 189,276,723

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

9. Other Post-Employment Benefits (OPEB) Plan

Plan Description and Benefits

The Authority provides certain post-employment health care benefits to retirees under a health insurance plan. These benefits are extended at the discretion of the Authority, which reserves the right to change or terminate benefits and to change premium contributions required from retirees in the future as circumstances change. All employees who are eligible for service retirement with the GERS (see Note 8) qualify for the Authority's post-employment health care benefits. An OPEB trust, the Virgin Islands Water and Power Authority Voluntary Employees' Beneficiary Association Trust, was established during the measurement period ended on June 30, 2017.

The post-employment benefits include continued access to coverage for the retiree and dependents in the medical, prescription, and dental plan sponsored by the Authority. At June 30, 2020, the following current and former employees were covered by the benefit terms:

Active employees	490
Inactive employees or beneficiaries	411
Total participants	901

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Net OPEB Liability

The Authority employs an actuary to assist in estimating the OPEB liability for the Authority as a whole and then allocates that liability and related cost systematically to the Water and Electric Systems. The total OPEB liability for the Authority's years ended June 30, 2020 and June 30, 2019 were measured as of June 30, 2019 and June 30, 2018, respectively, using an actuarial valuation date of June 30, 2019 and June 30, 2017, respectively.

The following table shows the allocated components of the Electric System's changes in the total OPEB liability, the plan fiduciary net position, and the net OPEB liability during the measurement period ended June 30, 2019:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balances	\$ 51,925,826	\$ 3,793,063	\$ 48,132,763
Changes for the year:			
Service cost	1,825,162	-	1,825,162
Interest	2,115,706	-	2,115,706
Difference between expected and actual experience	(1,296,632)	-	(1,296,632)
Changes to assumptions	(4,421,272)	-	(4,421,272)
Contributions - employer	-	570,163	(570,163)
Contributions - other	-	1,127,518	(1,127,518)
Net investment income	-	230,809	(230,809)
Benefit payments	(1,716,691)	(1,716,691)	-
Distributions - other	-	-	-
Net changes	(3,493,727)	211,799	(3,705,526)
Ending balances	\$ 48,432,099	\$ 4,004,862	\$ 44,427,237

The following table shows the allocated components of the Electric System's changes in the total OPEB liability, the plan fiduciary net position, and the net OPEB liability during the measurement period ended June 30, 2018:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balances	\$ 49,802,222	\$ 3,522,619	\$ 46,279,603
Changes for the year:			
Service cost	1,746,399	-	1,746,399
Interest	2,028,911	-	2,028,911
Changes to assumptions	-	-	-
Contributions - employer	-	403,687	(403,687)
Contributions - other	-	1,248,019	(1,248,019)
Net investment income	-	270,444	(270,444)
Benefit payments	(403,687)	(403,687)	-
Distributions - other	(1,248,019)	(1,248,019)	-
Net changes	2,123,604	270,444	1,853,160
Ending balances	\$ 51,925,826	\$ 3,793,063	\$ 48,132,763

Electric System of the Virgin Islands Water and Power Authority

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Actuarial Assumptions

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Salary Increases:	3.25%, including inflation
Investment rate of return:	4.00%
Healthcare cost trend rates:	Based on the Getzen Model, with trend starting at 19.70% in fiscal year 2020 to reflect actual premiums, 6.25% in fiscal year 2021, and gradually decreasing to an ultimate trend rate of 4.02%. The ultimate trend value includes a 0.27% load for cadillac tax.
Mortality:	For pre-retirement mortality and post-retirement healthy mortality, 110% of the RP-2014 Blue Collar Employee Mortality Table with generational projection from 2015 using Scale MP-2015. For post-retirement disabled lives, 125% of the RP-2014 Disabled Annuitant Mortality Table with generational projection from 2015 using Scale MP-2015.

Discount Rate

GASB Statement No. 75 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the total OPEB liability (TOL). This rate considers the ability of the fund to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses, and investment returns are projected into the future. The projected plan fiduciary net position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. For years when assets are projected to be on hand to meet benefit payments, the assumed net long-term rate of return is used as the discount rate. For years when assets are not projected to be sufficient to meet benefit payments, the use of a specific municipal yield is used as the discount rate, as described in the following paragraph.

The Single Discount Rate (SDR) is equivalent to applying the following two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on OPEB plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by Fidelity) as of the measurement date (to the extent that the projected plan fiduciary net position based on the long-term expected rate of return is insufficient to pay benefits).

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

For the purpose of this measurement, the expected rate of return on OPEB plan investments is 4.00% and the municipal bond rate is 3.13% as of June 30, 2019. The Authority does not have a formal funding policy. However, the Authority has a track record of paying benefits out of its general revenue in addition to depositing ad hoc amounts into the OPEB trust.

It was assumed that the Authority would continue this practice. Based on the current pattern, the OPEB plan's fiduciary net position together with the future contributions are expected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Electric System's allocation of the Authority's net OPEB liability (NOL) to changes in the Single Discount Rate, calculated using a Single Discount Rate of 4.00%, as well as what the Electric System's allocation of the Authority's net OPEB liability would be if it were calculated using a Single Discount Rate that is 1.00% lower or 1.00% higher than the current rate for the year ended June 30, 2020:

1.00% Decrease - Share of NOL @ 3.00%	Share of NOL @ 4.00%	1.00% Increase - Share of NOL @ 5.00%
\$ 51,232,792	\$ 44,427,237	\$ 38,824,007

The following presents the Electric System's allocation of the Authority's net OPEB liability (NOL) to changes in the Single Discount Rate, calculated using a Single Discount Rate of 4.00%, as well as what the Electric System's allocation of the Authority's net OPEB liability would be if it were calculated using a Single Discount Rate that is 1.00% lower or 1.00% higher than the current rate for the year ended June 30, 2019:

1.00% Decrease - Share of NOL @ 3.00%	Share of NOL @ 4.00%	1.00% Increase - Share of NOL @ 5.00%
\$ 56,201,801	\$ 48,132,763	\$ 41,575,015

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

Regarding the sensitivity of the net OPEB liability to changes in the healthcare cost trend rates, the following presents the Electric System's allocation of the Authority's net OPEB liability, calculated using the same trend rates as employed in the most recent funding valuation as well as what the Electric System's allocation of the Authority's net OPEB liability would be if it were calculated using a sequence of rates that are 1.00% lower or 1.00% higher than the current rate for the year ended June 30, 2020:

1.00% Decrease	Current Healthcare Cost Trend Rate Assumption Baseline	1.00% Increase
\$ 38,093,091	\$ 44,427,237	\$ 52,365,564

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

The following presents the Electric System's allocation of the Authority's net OPEB liability, calculated using the same trend rates as employed in the most recent funding valuation as well as what the Electric System's allocation of the Authority's net OPEB liability would be if it were calculated using a sequence of rates that are 1.00% lower or 1.00% higher than the current rate for the year ended June 30, 2019:

1.00% Decrease	Current Healthcare Cost Trend Rate Assumption Baseline	1.00% Increase
\$ 41,527,607	\$ 48,132,763	\$ 57,884,782

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan fiduciary net position is available in a separate Trust financial report.

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the Authority recognized OPEB expense of \$2.0 million of which \$1.7 million was allocated to the Electric System.

Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Electric System in the computation of net OPEB liability for the year ended June 30, 2020:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 8,592,254
Difference between expected and actual experience	-	1,108,714
Net difference between projected and actual earnings on pension plan investments	-	162,450
Contributions made subsequent to measurement date	462,510	-
	\$ 462,510	\$ 9,863,418

For the year ended June 30, 2019, the Authority recognized OPEB expense of \$2.9 million of which \$2.4 million was allocated to the Electric System. Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Electric System in the computation of net OPEB liability for the year ended June 30, 2019:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 6,014,684
Net difference between projected and actual earnings on pension plan investments	-	135,360
Contributions made subsequent to measurement date	457,866	-
	\$ 457,866	\$ 6,150,044

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

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

Year ending June 30,

2021	\$ (2,083,996)
2022	(2,083,996)
2023	(2,073,420)
2024	(2,047,511)
2025	(828,682)
Thereafter	(745,813)
<hr/>	
Total	\$ (9,863,418)

Payable to the OPEB Plan

At June 30, 2020 and 2019, the Electric System reported a payable of \$462,510 and \$457,866 for the outstanding amount of contributions to the Plan required for the year ended June 30, 2020 and 2019, respectively.

10. Derivative Instruments

Background

Beginning in 2015, the Authority began using derivative instruments, namely swaps, to hedge its commodity price risk associated with short-term and long-term changes in fuel prices. Derivative instruments are used by the Authority in its normal course of business to attempt to manage the impact to its customers of market price fluctuations for the purchase of propane. The Authority does not use derivative instruments for trading or speculative purposes.

These contracts are evaluated pursuant to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to determine whether they meet the definition of derivative instruments, and whether they effectively hedge the expected cash flows associated with commodity price risk exposures. The fair values of the Authority's derivatives are reported on the accompanying Statements of Net Position as derivative instruments.

The Authority applies hedge accounting for derivative instruments that are deemed effective under GASB Statement No. 53. Under hedge accounting, changes in the fair value of such hedging derivative instruments is a component of deferred inflows or deferred outflows on the accompanying Statements of Net Position until the contract is settled or hedge accounting is terminated.

Derivative instruments that do not meet the definition of a hedging derivative instrument are economic hedges, intended to mitigate exposure to fluctuations in commodity prices and are referred to as investment derivative instruments. Changes in the fair value of investment derivative instruments are recognized as gains or losses in nonoperating revenues/expenses. All settlement payments or receipts for hedging and investment derivative instruments are recorded as fuel expense for commodity derivatives in the accompanying Statements of Revenues, Expenses, and Changes in Net Position in the period settled.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Hedging

The Authority has periodically used derivative instruments to partially hedge its commodity price risk associated with fossil fuel, namely propane, which it purchases to generate electricity under fuel purchase agreements.

The hedges seek to turn certain purchase volumes of fuel under contracts based on variable 'spot' prices into effective fixed prices with the intention to safeguard ratepayers from drastic changes in fuel costs required to be recovered in rates. The Authority has no intention to take delivery of fuel with derivative instrument contracts.

The derivative agreements require monthly payments to be paid or received based on the difference between the spot market price and the contract strike price on notional volumes. None of the Authority's derivatives require a cash payment at inception.

The fair value estimates reflected on the accompanying Statements of Net Position are based on pertinent information available to management. The fair value estimates for the Authority's derivative instruments represent the present value of the differences of the fixed prices in the related instruments less the OPIS Propane Mont Belvieu (Non-TET) forward price curve, multiplied by the corresponding monthly volume using the LIBOR forward interest rate curve as a discount rate.

The fair value balances of derivative instruments outstanding at June 30, 2020 and 2019, are as follows (losses and liabilities in parentheses):

June 30,	2020	2019
Fair Value	\$ -	\$ 1,315,784
Change in Fair Value	\$ (1,315,784)	\$ (12,574,470)

The following are the key terms of the Authority's derivative instruments as of June 30, 2019:

Instrument	Effective Dates	Notional Amount (in Gallons)	Strike Prices	Fair Value
Mont Belvieu Swap - Propane Receive Fixed	Jan 2019 - Dec 2019	15,456,000	\$ 0.60 - 0.77	\$ (1,116,011)
Mont Belvieu Asian Put Option (Floor)	Oct 2019 - Dec 2019	15,456,000	\$ 0.70	\$ 2,432,685
Mont Belvieu Asian Call Option (Cap)	Oct 2019 - Dec 2019	15,456,000	\$ 0.83 - 0.87	\$ (890)

Risks

Basis Risk - The OPIS-based commodity hedging transactions are subject to locational basis risk. The Authority's derivative instruments are based on pricing at the Mont Belvieu, Texas delivery point; however, the Authority may purchase propane at local Territory delivery points.

Credit Risk - The Authority intends to hold all derivative instruments to maturity. The Authority is exposed to market price risk in the event of nonperformance by any of its counterparties; however, the Authority does not anticipate nonperformance.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

The counterparties to these contracts are affiliates of major financial institutions or commodity companies with credit ratings of at least A with one of the major rating agencies.

The following are the key counterparty terms of the Authority's derivative instruments as of June 30, 2019:

<u>Counterparty</u>	<u>Counter Party Credit Ratings</u>	<u>Fair Market Value of Derivative Instrument Asset / (Liability)</u>
Shell Trading Risk Management, LLC (Royal Dutch Shell)	Jan 2018 - Dec 2019	\$ 1,315,784

Termination Risk - Termination risk is the risk that a derivative could be terminated by a counterparty prior to its scheduled maturity due to a contractual event with the Authority owing a termination payment and no longer meeting the objective of the hedge. As long as the Authority fulfills its obligations under the contracts and does not default under the agreements, the counterparties do not have the right to terminate these agreements. The Authority believes that termination risk is low because the counterparties may terminate the agreements only upon the occurrence of specific events such as payment defaults or bankruptcy.

If, at the time of termination, the mark-to-market of the derivative is a liability of the Authority, the Authority could be required to pay that amount to the counterparty. Termination risk associated with all of the Authority's derivatives is limited to the fair value.

11. Commitments and Contingencies

Litigation

The Authority is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Electric System's financial position, changes in net position, or liquidity. Additionally, Title 30, Section 111(a) of the Virgin Islands Code exempts the Authority's Electric System property from lien, levy, and sale as the result of any judgment against the Authority, except by bondholders.

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. Also see Note 14.

Electric System of the Virgin Islands Water and Power Authority

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Insurance Program

The Electric System is exposed to various risks of loss related to damage and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Authority mitigates this risk of loss by purchasing commercial insurance, including general liability, excess liability, workers' compensation, property, and employee health, life, and accident.

The Authority's commercial insurance policies cover catastrophic exposures as well as those risks required to be insured by law or contract. It is the policy of the Authority to retain a significant portion of certain losses related primarily to physical loss to property, business interruption resulting from such loss, and comprehensive general and vehicle liability. There were no reductions in coverage from the prior year, and the amount of settlements has not exceeded insurance coverage for each of the past three years.

Purchase Power Agreements

The Authority has signed purchase power agreements with several companies to integrate a combined 18-megawatt of solar electricity into the Authority's electrical grid system. The agreements expire between 2022 and 2027. The Authority will not own the solar assets, but will be able to purchase solar generated electricity at contracted rates.

Construction Contracts

During the normal course of business, the Authority contracts with various construction companies to help the Authority maintain, replace, and expand its utility plant. These construction costs are expected to be paid for using proceeds from government grants, contributions from developers, and cash from operations.

Operating Leases

A temporary 22-megawatt mobile power plant was leased for \$14.6 million for 18 months from April 2012 through October 2013. The lease has since been reevaluated and extended for short term periods (between 2 to 12 months) with the final extension through December 31, 2020. Also, in May 2019, another temporary unit was leased from a different vendor for an initial period of 104 weeks and starting in June 2020, an additional unit was leased for a period of 2 years. Total lease payments for 2020 and 2019 were \$11.7 million and \$11.4 million, respectively.

During the normal course of business, the Authority leases additional and various property and equipment to support Electric System operations. The leases are generally short term in nature and lease payments are not significant to the overall operations of the Electric System.

Broadband Expansion Project

In April 2020, the Authority amended its Memorandum of Agreement (MOA) with another instrumentality of the Government. As part of the original agreement, exclusive use of certain underground fiber and infrastructure owned by the Authority was provided. Following Hurricanes Irma and Maria, the Authority obtained Federal funding for the hardening of its infrastructure. The MOA was amended to provide a continuous and exclusive right to use future telecommunications fiber and spare underground or subsea conduit owned by the Authority.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Hurricane Hugo

At both June 30, 2020 and 2019, the Electric System has recorded a liability of \$4.1 million for amounts owed to the Federal Emergency Management Agency (FEMA) for overpayments related to certain questioned costs. Currently, FEMA and its sub-recipient, the Government of the U.S. Virgin Islands, do not have a mechanism in place for recovering the overpayment of disaster-related funds. In addition, FEMA has not made a formal request for repayment of these funds. In management's opinion, the resolution of this matter will not have a material adverse effect on the Authority's changes in financial position or cash flows.

Hurricane Omar

In October 2008, the U.S. Virgin Islands were impacted by Hurricane Omar. The majority of the damage was inflicted to the electric distribution system on the island of St. Croix with minimal damage on St. Thomas, St. John, and Water Island. The Authority expended \$2.7 million for storm cleanup and system restoration as of June 2010.

The Territory was declared a federal disaster after the hurricane and was eligible for reimbursement of 75% of what was expended according to the category of the damage. Both at June 30, 2020 and 2019, the Electric System has recorded a grant receivable from FEMA amounting to approximately \$1.0 million.

Hurricane Earl

In August 2010, the U.S. Virgin Islands were impacted by Hurricane Earl. The damage was inflicted on the electric distribution system on all the islands. The Authority expended over \$2.0 million for storm clean-up and restoration, which was completed at the end of October 2010. The Territory was declared a federal disaster area after the Hurricane and was eligible for reimbursement of 75% - 80% of what was expended according to the category of the damage. Both at June 30, 2020 and 2019, the Electric System has recorded a grant receivable from FEMA amounting to approximately \$1.3 million.

Hurricanes Irma and Maria

In the aftermath of Hurricanes Irma and Maria in September 2017, the Territory-wide catastrophic damage to the transmission and distribution system rendered 90% of the system destroyed. The Authority had purchased commercial insurance to cover its risk of loss from destruction of assets. The commercial insurance policies carry a \$5.0 million deductible per event. The transmission and distribution system which sustained the most damage is not covered under this policy. Initially, the Authority did not file a claim as the estimated damage to insurable assets was less than the \$5.0 million deductible. However, on September 6, 2019, the Authority filed suit against the insurers for damages related to the 2017 storms and sought compensatory and punitive damages. As of the date of this report, the resolution of the suit remains pending.

Global Pandemic

In March 2020, the Governor of the U.S. Virgin Islands declared a state of emergency due to the coronavirus pandemic known as COVID-19. The state of emergency was approved by the President of the United States under the provisions of the Stafford Act and the National Emergencies Act.

Electric System of the Virgin Islands Water and Power Authority

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A federally approved state of emergency activates federal assistance to states in the form of financial, logistical, and technical assistance. The state of emergency also activates other emergency response protocols and systems to protect citizenry such as stay-at-home orders, travel restrictions, and social distancing requirements.

As the emergency measures are eased, management continues to actively monitor the evolving impact of the COVID-19 outbreak on its financial condition, including the duration of the closings, speed of recovery, and impact on demand. As of the date of issuance of this report, the Electric System's operations continued, and the Authority believes that it will have the necessary resources to fund essential services and make timely debt service payments.

Also, in March 2020, the President of the United States signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, appropriated funds for the Coronavirus Relief Fund to be used to make payments for specified uses to state, territorial, local, and tribal governments. In May 2020, the Authority received \$15.5 million from the Government of the U.S. Virgin Islands in funding from the Coronavirus Relief Fund. The Authority implemented the Your Energy Stimulus (YES) program providing credits in the amount of \$250 to electric residential accounts and \$500 for electric business accounts during its May 2020 billing cycle. Also see Note 14.

12. Management's Plan

The Authority has been financially challenged for several years, and its situation was exacerbated by the catastrophic damage inflicted on the Territory by the landfall of two Category 5 hurricanes (Irma and Maria) in quick succession in September 2017. The management team recently unveiled its plan for the next twelve months focusing on several key initiatives as outlined below:

Modernization of Infrastructure

Despite its financial challenges, the Authority is benefitting from significant investment of Federal funds in infrastructure projects. For example, Federal funding is modernizing the Transmission & Distribution (T&D) infrastructure as it is migrating the system to underground infrastructure where feasible. In areas when undergrounding is not viable, the T&D system is being hardened by the installation of composite poles that can withstand higher winds. The transition is approximately 65% complete. The modernization of the T&D system is expected to improve system reliability, reduce operating costs, and make the system more resistant to the impact of storms. Also see Note 14.

Near-Term Operational Initiatives

The Authority must also address its ongoing operations. Management believes it can reduce the Authority's current operating cost. The plan envisions no increase in rates, but rather the implementation of the following steps, to reduce the operating cost of the Authority, initially primarily as it relates to fuel expense:

- Placing new, more efficient generation in service on St. Thomas. The installation of 36-megawatts of Wartsila reciprocating engines along with 9-megawatts of battery storage is currently underway. The project is funded by a grant from the U.S. Department of Housing and Urban Development, which is critical to the community of the Virgin Islands because otherwise, the cost of buying and installing the generators would need to be recovered in rates. Also see Note 14.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

- The installation of new, more efficient generation on St. Croix. The plan contemplates approximately 20-megawatts of additional generation, which improves the efficiency with which the Authority converts fuel into electricity. This project is not expected to be federally funded.
- The installation of additional solar capacity on St. Croix. The plan contemplates 30-megawatts, but a large installation will be considered if feasible. The project is expected to be owned, developed, and operated by a third party with the Authority purchasing the output of the installation through a power purchase agreement. Additional solar capacity on St. Croix is not expected to be federally funded.
- The acquisition of generation that is currently leased to avoid ongoing monthly lease expenses.

The plan outlines a strategy that will reduce risk for the Authority going forward. With the addition of new generation, the Authority will be buying less of its most expensive input cost, which is fossil-fuel.

Other Initiatives

The foregoing only addresses Phase 1 of the plan, which is focused on stabilizing the Authority. Additional efforts will be focused on improving the Authority's processes and procedures with the objective of improving customer service, billing, and collections. Improving customer service and increasing collections is expected to reduce operating costs and improve cash flow.

13. Regulatory Matters

In April 1998, the Governor signed into law Virgin Islands Act No. 6224, which provides that the Authority, as well as certain other instrumentalities of the Government, make a payment to the Government in lieu of taxes equal to 10% of net revenues or \$500,000, whichever is greater. The term "net revenues" is not defined in the legislation. Subject to further clarification from the Legislature, the Authority has interpreted net revenues as net income calculated in accordance with accounting principles generally accepted in the United States of America. For both of the years ended June 30, 2020 and 2019, the Electric System incurred \$500,000 in expenses related to this tax on behalf of the Authority.

14. Subsequent Events

Natural Disasters - Hurricanes Irma and Maria

Through qualification for substantial Federal disaster assistance from FEMA and other Federal agencies, such as the U.S. Department of Housing and Urban Development, the Authority has made significant progress towards restoring its assets which were damaged by Hurricanes Irma and Maria in September 2017.

FEMA's Public Assistance Grant Program (PA) provides Federal support to include assistance for debris removal, life-saving emergency protective measures, and the repair, replacement, or restoration of disaster-damaged facilities. As of March 2022, the Authority has been approved for approximately \$1,449.9 million in grant funding for emergency restoration work, and permanent and hazard mitigation projects.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

In December 2020, the Authority through the Government of the Virgin Islands, received notice from FEMA of the results of audits related to the PA program awards. As a result, the Authority received a notice of potential debt in the amount of \$97.1 million. In response to the notice, in February 2021, the Authority exercised its option to appeal the notice and provided additional clarification and documentation. Management believes these non-compliance instances, if any, should not materially affect the Authority's financial position.

The U.S. Department of Housing and Urban Development (HUD), through its Community Development Block Grant-Disaster Recovery (CDBG-DR) program, has obligated \$95.9 million to the Authority for the Harley Expansion Project. The project will add 36-megawatts of generation (plus battery storage) to the Randolph Harley Power Plant on St. Thomas. As of March 2022, the Authority has been approved for approximately \$84.2 million in local cost match funding from HUD.

In addition to incurring significant storm related expenses, recurring operating revenues of the Authority have been reduced. In the interim, the Authority has revised its fiscal years 2021 and 2022 budgets. In a further effort to close potential shortfalls and to serve returning citizens, the Authority continues to work closely with Federal agencies, to maximize its recovery from all available sources. 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.

Economic Relief Legislation

To address issues related to the continuance of the global coronavirus pandemic, in December 2020, "The Consolidated Appropriations (CA) Act" was passed. The CA Act, among other things, provided for an extension of time to spend any CARES Act funds until December 31, 2021, and provided funding for education, healthcare, broadband, and transportation. The Authority has evaluated all programs related to the CA Act and has determined there is no impact to the Electric System's operations.

In March 2021, "The American Rescue Plan (ARP) Act of 2021" was signed into law. The ARP Act, among other things, appropriated funds for the Coronavirus Capital Projects Fund and for specified uses for state, territorial, local, and tribal governments. There is no assurance that the Authority will be eligible for these funds or will be able to obtain them. The Authority continues to examine the impact that the ARP Act may have on its operations and to explore initiatives with the Governor and his Administration to derive benefit from the passage of the legislation.

Bond Anticipation Notes (BAN)

In October 2020, the Authority and the beneficial owners of the Series 2018B Senior BANs entered into an agreement to re-issue new BANs, Series 2020A, and extend the maturity date to no later than July 1, 2022.

The 2018C BANs whose first payment was due on July 1, 2021 were further extended by FEMA with the first payment deferred until January 1, 2024 and the final payment deferred until July 1, 2036.

On September 30, 2021, repayments of the Community Disaster Loans issued by FEMA after the hurricanes were cancelled when Congress passed the Extending Government Funding and Delivering Emergency Assistance Act (P.L. 117-43) and on October 8, 2021, FEMA notified the Authority of such cancellation and closure of the loan program. Also see Note 7.

Electric System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Management's Evaluation

Management has evaluated any events or transactions occurring after June 30, 2020, the statement of net position date, through June 30, 2022, 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 Electric System's financial statements for the year ended June 30, 2020.

**Required
Supplementary Information**

Electric System of the Virgin Islands Water and Power Authority

Schedule of Changes in OPEB Liability and Related Ratios

<i>Measurement year ended June 30,</i>	2019	2018	2017
Total OPEB Liability:			
Service Cost	\$ 2,198,990	\$ 2,104,095	\$ 2,686,270
Interest on the Total OPEB Liability	2,549,043	2,444,471	2,017,603
Difference between Expected and Actual Experience	(1,562,207)	-	-
Assumption Changes	(5,326,834)	-	(10,145,248)
Benefit Payments	(2,068,302)	(1,990,007)	(1,931,335)
Net Change in Total OPEB Liability	(4,209,310)	2,558,559	(7,372,710)
Total OPEB Liability - Beginning*	62,561,236	60,002,677	67,375,387
Total OPEB Liability - Ending (a)	\$ 58,351,926	\$ 62,561,236	\$ 60,002,677
Plan Fiduciary Net Position:			
Employer Contributions (Trust Deposits)	\$ 686,943	\$ 486,370	\$ 4,324,854
Employer Contributions (Benefits Paid Outside the Trust)	1,358,455	1,503,637	1,739,016
OPEB Plan Net Investment Income	278,083	325,836	111,584
Benefit Payments	(2,068,302)	(1,990,007)	(1,931,335)
Net Change in Plan Fiduciary Net Position	255,179	325,836	4,244,119
Plan Fiduciary Net Position - Beginning	4,569,955	4,244,119	-
Plan Fiduciary Net Position - Ending (b)	\$ 4,825,134	\$ 4,569,955	\$ 4,244,119
Net OPEB Liability (Asset) - Ending (a) - (b)	\$ 53,526,792	\$ 57,991,281	\$ 55,758,558
Plan Fiduciary Net Position as a percentage of Total OPEB Liability	8.27%	7.30%	7.07%
Covered Payroll	\$ 30,899,845	\$ 31,157,523	\$ 30,176,778
Net OPEB Liability as a Percentage of Covered Payroll	173.23%	186.12%	184.77%

This schedule is intended to show a 10-year trend for the Authority of which the Electric System's share would be 83% of the above. Additional years will be reported as they become available.

** An OPEB trust was established during the measurement period ended June 30, 2017. Consequently, the beginning total OPEB liability was calculated using a discount rate of 2.92% based on municipal bond rates prevailing on June 30, 2016.*

Electric System of the Virgin Islands Water and Power Authority

Schedule of Electric System's OPEB Contributions

<i>Fiscal Year</i>	2019	2018	2017
Actuarially required contributions	\$ 4,427,650	\$ 4,106,205	\$ 6,988,824
Contributions in relation to the actuarially required contributions	1,697,681	1,651,706	5,033,012
Contribution deficiency (excess)	\$ 2,729,969	\$ 2,454,499	\$ 1,955,812
Covered payroll	\$ 25,646,871	\$ 25,860,744	\$ 25,046,726
Contributions as a percentage of covered payroll	6.62%	6.39%	20.09%

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. Actuarially required contributions are calculated as of June 30 of the preceding year, which is 24 months prior to the end of the fiscal year in which contributions are made and reported.

Electric System of the Virgin Islands Water and Power Authority

Schedule of the Electric System's Share of the Net Pension Liability

Fiscal Year	2020	2019	2018	2017	2016	2015
Electric System's proportion of the net pension liability	4.5069%	5.1830%	5.6480%	5.9390%	6.3710%	7.0146%
Electric System's proportionate share of the net pension liability	\$ 239,525,862	\$ 216,281,277	\$ 247,390,587	\$ 274,794,360	\$ 258,982,351	\$ 216,472,978
Electric System's covered payroll	\$ 20,980,270	\$ 22,652,510	\$ 21,225,988	\$ 24,262,587	\$ 23,551,148	\$ 24,813,590
Electric System's proportionate share of the net pension liability as a percentage of its covered payroll	1142%	955%	1166%	1133%	1100%	872%
Plan fiduciary net position as a percentage of the total pension liability	11.30%	15.56%	16.18%	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).

Electric System of the Virgin Islands Water and Power Authority

Schedule of the Electric System's Pension Contributions

Fiscal Year	2020	2019	2018	2017	2016	2015
Actuarially required contributions	\$ 18,607,173	\$ 16,804,159	\$ 17,827,804	\$ 17,513,940	\$ 15,746,445	\$ 14,035,498
Contributions in relation to the actuarially required contributions	3,307,834	2,808,948	3,680,519	3,588,610	3,136,986	3,816,049
Contribution deficiency (excess)	\$ 15,299,339	\$ 13,995,211	\$ 14,147,285	\$ 13,925,330	\$ 12,609,459	\$ 10,219,449
Covered payroll	\$ 18,027,011	\$ 20,980,270	\$ 22,652,510	\$ 21,225,988	\$ 24,262,587	\$ 23,551,148
Contributions as a percentage of covered payroll	18.35%	13.39%	16.25%	16.91%	12.93%	16.20%

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.

Supplementary Schedule

Electric System of the Virgin Islands Water and Power Authority

Five-Year Comparative Summary of Operations (Unaudited)

<i>Years ended June 30,</i>	2020	2019	2018	2017	2016
Operating revenues:					
Electricity sales to customers	\$ 107,918,444	\$ 82,781,826	\$ 55,632,509	\$ 70,823,169	\$ 47,984,195
Electricity sales to Virgin Islands Government	30,800,210	24,551,632	17,322,277	21,924,227	14,281,634
Fuel escalator revenues	95,026,519	117,455,074	50,719,027	129,667,740	135,799,775
OPEB surcharge	664,492	-	-	2,922,132	5,239,552
Maintenance surcharge	5,922,597	13,757,920	9,639,023	15,619,170	15,954,156
Payment in lieu of taxes	396,469	379,592	266,224	430,946	433,566
Leased generation surcharge	7,308,137	1,997,398	-	-	-
Line loss surcharge	522,986	1,215,116	852,246	1,379,712	1,388,032
Other operating revenues	3,000,199	2,375,388	1,987,232	2,381,069	3,167,926
Bad debt (expense) recovery	(3,046,022)	(2,981,721)	(2,762,491)	(917,688)	61,431
Total operating revenues	248,514,031	241,532,225	133,656,047	244,230,477	224,310,267
Operating and production expenses:					
Production:					
Fuel	92,458,863	123,112,452	96,391,349	142,627,941	125,688,066
Operations and maintenance	43,627,797	39,997,736	38,002,589	38,602,721	32,596,030
Total production expenses	136,086,660	163,110,188	134,393,938	181,230,662	158,284,096
Distribution	7,998,358	25,500,642	40,596,937	8,031,632	8,185,087
Customer service	5,448,297	5,218,746	2,894,096	4,567,186	5,274,266
Administrative and general	45,928,525	47,144,662	55,866,921	51,323,689	37,332,025
Payment in lieu of taxes	500,000	500,000	500,000	500,000	500,000
Depreciation and amortization	31,980,671	30,383,682	20,091,353	16,176,649	17,553,806
Total operating and production expenses	227,942,511	271,857,920	254,343,245	261,829,818	227,129,280
Operating income (loss)	20,571,520	(30,325,695)	(120,687,198)	(17,599,341)	(2,819,013)
Nonoperating revenues (expenses):					
Loss on retirement of capital assets	-	-	-	-	(13,772,676)
Investment derivative instruments (loss) gain	(1,315,784)	(12,574,470)	9,623,887	(5,558,810)	9,825,177
Interest expense	(49,813,979)	(39,422,819)	(41,001,044)	(28,053,069)	(13,711,701)
Investment earnings	356,116	563,445	362,602	99,479	42,679
Allowance for funds used during construction	-	-	-	102,310	133,116
Total nonoperating expenses	(50,773,647)	(51,433,844)	(31,014,555)	(33,410,090)	(17,483,405)
Change in net position, before capital grants and contributions and special item	(30,202,127)	(81,759,539)	(151,701,753)	(51,009,431)	(20,302,418)
Capital grants and contributions	133,303,921	349,194,918	414,194,064	4,872,796	4,358,798
Insurance recoveries (Impairment loss) on capital assets	-	1,499,960	(99,778,613)	-	-
Increase (decrease) in net position	\$ 103,101,794	\$ 268,935,339	\$ 162,713,698	\$ (46,136,635)	\$ (15,943,620)
Electricity sales:					
Residential	\$ 50,340,514	\$ 37,199,307	\$ 24,611,780	\$ 30,899,051	\$ 20,661,002
Commercial	25,453,764	20,415,183	14,795,721	17,125,514	11,897,278
Industrial	56,756,850	44,631,763	30,430,601	38,483,116	24,950,450
Street lighting	5,052,931	4,022,062	2,369,650	5,023,751	3,547,327
Fuel escalator	95,026,519	117,455,074	50,719,027	129,667,740	135,799,775
Payment in lieu of taxes surcharge	396,469	379,592	266,224	430,946	433,566
OPEB Surcharge	664,492	-	-	2,922,132	5,239,552
Maintenance surcharge	5,922,597	13,757,920	9,639,023	15,619,170	15,954,156
Self-insurance surcharge	1,114,595	1,065,143	747,034	1,215,964	1,209,787
Leased generation surcharge	7,308,137	1,997,398	-	-	-
Line loss surcharge	522,986	1,215,116	852,246	1,379,712	1,388,032
Total	\$ 248,559,854	\$ 242,138,558	\$ 134,431,306	\$ 242,767,096	\$ 221,080,925
Kilowatt-hour sales (in thousands):					
Residential	227,814	197,912	142,834	228,987	224,268
Commercial	103,937	92,003	71,290	112,187	115,464
Industrial	223,845	224,611	171,500	260,910	281,609
Street lighting	10,715	8,537	4,566	17,450	17,350
Total	566,311	523,063	390,190	619,534	638,691
Number of customers at year-end	70,093	37,791	33,432	55,249	54,881

Appendix F

VIWAPA 2020 AUDITED FINANCIALS



Water System of the Virgin Islands Water and Power Authority

**Management's Discussion and Analysis,
Financial Statements (with Independent
Auditor's Report Thereon), Required
Supplementary Information, and
Supplementary Schedule (Unaudited)
Years Ended June 30, 2020 and 2019**

Water System of the Virgin Islands Water and Power Authority

**Management's Discussion and Analysis,
Financial Statements (with Independent
Auditor's Report Thereon),
Required Supplementary Information, and
Supplementary Schedule (Unaudited)
Years Ended June 30, 2020 and 2019**

Water System of the Virgin Islands Water and Power Authority

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Independent Auditor's Report

To the Governing Board
Virgin Islands Water and Power Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Water System (the Water System) of the Virgin Islands Water and Power Authority (the Authority), a major fund of the Authority, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Water System's basic financial statements as listed in the table of contents. The Authority is a component unit of the Government of the U.S. Virgin Islands.

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 of material misstatement.

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water System of the Virgin Islands Water and Power Authority, as of June 30, 2020 and 2019, 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.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, these financial statements present only the Water System and do not purport to, and do not present fairly the financial position of the Authority, as of June 30, 2020 and 2019, the respective changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of changes in OPEB liability and related ratios, schedule of the Water System's OPEB contributions, schedule of the Water System's share of the net pension liability, and schedule of the Water System's pension contributions on pages 6 through 11 and 44 through 47 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the Water System's basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information - Supplementary Schedule

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Water System's basic financial statements. The five-year comparative summary of operations is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2022, 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 solely 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.

BDO USA, LLP

June 30, 2022

Management's Discussion and Analysis

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

The Virgin Islands Water and Power Authority (the Authority) owns, operates, and maintains a water production and distribution system (the Water System) and an electric generation and distribution system (the Electric System), which are separately financed and require separate accounting and reporting. Each of these systems is accounted for as a separate enterprise fund. As management of the Authority, we offer readers of the Water System financial statements this discussion and analysis of the financial activities of the Water System for the years ended June 30, 2020 and 2019, with selected comparative information for the year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the financial statements that follow this section.

The Water System's service territory includes the islands of St. Thomas, St. Croix, and St. John. Because of the historical development of the Water System and certain characteristics unique to the U.S. Virgin Islands, the Water System serves a small portion of the potential customers in the U.S. Virgin Islands. Among such factors is a U.S. Virgin Islands building code requirement revised in 1996, that all new residential and commercial buildings have cisterns to accumulate rainwater. This requirement has reduced the demand for potable water from the Authority. In addition, because of the mountainous, rocky terrain, especially on the islands of St. Thomas and St. John, the construction of the water distribution system has been difficult and costly.

The Authority provides water service to approximately 16,400 customers (as of June 30, 2020). The Authority also provides electric service to over 70,000 customers (as of June 30, 2020). The Water System's rates are under the jurisdiction of the Virgin Islands Public Services Commission (PSC or the Commission), unlike many other municipal systems. These rates are intended to provide revenues to recover operating and maintenance expenses, funds for debt service coverage requirements, and funds for working capital and capital expenses. The Authority does not use rate base or rate of return principles for setting rates.

Financial Highlights - 2020

The Water System's net position increased by \$8.9 million, or 76% as a result of 2020 operations. There was \$32.5 million in total operating revenues and \$5.7 million in capital grant contributions, offset by \$28.7 million in operating and production expenses and \$559 thousand in total net non-operating expenses.

- The Water System's Levelized Energy Adjustment Clause (LEAC) factors approved by the PSC were able to fully recover the cost of fuel in the current period leading to a fuel rate revenue refundable of \$2.0 million in the current period.
- During 2020, the Water System's total operating revenues increased by \$4.3 million, or a 15% increase. The increase is attributable mainly to increases in Government sales revenues of \$0.7 million, increases in fuel escalator revenues of \$2.6 million and improvement in bad debt expense of \$1.8 million, offset by a decrease in customer sales of \$0.8 million.
- Operating and production expenses decreased by \$1.4 million from \$30.1 million to \$28.7 million, compared to the prior year. This was due to a decrease of \$2.2 million in administrative and general expenses offset by an increase in operations and maintenance expenses of \$1.0 million.

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

Financial Highlights - 2019

The Water System's net position increased by \$1.0 million, or 11% as a result of 2019 operations. There was \$28.1 million in total operating revenues and \$3.6 million in capital grant contributions, offset by \$30.1 million in operating and production expenses and \$572 thousand in total net non-operating expenses.

- The Water System's Levelized Energy Adjustment Clause (LEAC) factors approved by the PSC were able to fully recover the cost of fuel in the current period leading to a fuel rate revenue refundable of \$4.2 million in the current period.
- During 2019, the Water System's total operating revenues increased by \$3.4 million, or a 14% increase. The increase is attributable mainly to increases in customer and Government sales revenues of \$3.5 million, an increase in fuel escalator revenues of \$2.0 million, offset by an increase in bad debt expense of \$2.1 million.
- Operating and production expenses decreased by \$0.2 million from \$30.3 million to \$30.1 million, compared to the prior year. This was due to a decrease of \$2.6 million in administrative and general expenses offset by an increase in production cost of water distributed and customer service cost of \$2.4 million.

Overview of the Financial Statements

Statement of Net Position

This statement includes all of the Water System's assets and deferred outflows of resources, and liabilities and deferred inflows or resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to Water System creditors (liabilities). It also provides the basis for evaluating the capital structure of the Water System and assessing the liquidity and financial flexibility of the Water System.

Statement of Revenues, Expenses, and Changes in Net Position

All of the current year revenues and expenses are accounted for in this statement. This statement measures the success of the Water System's operations over the past year and can be used to determine whether the Water System has successfully recovered all of its costs through its user fees and other charges, and maintained profitability and creditworthiness.

Statement of Cash Flows

The primary purpose of this statement is to provide information about the Water System's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as "where did cash come from?," "what was cash used for?," and "what was the change in cash balances during the reporting period?"

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

Notes to the Financial Statements

The notes provide additional information that is essential to fully understanding the data provided in the financial statements. The notes to the financial statements can be found on pages 17-43 of this report.

Financial Analysis of the Authority's Water System

One of the most important questions asked about the Water System's finances is: "Is the Water System better off or worse off as a result of the fiscal year activities?" The statement of net position and the statement of revenues, expenses, and changes in net position report information about the activities of the Water System in a way that will help answer this question. These two statements report the net position of the Water System and the changes in them. You can think of the Water System's net position - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the Water System's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in economic conditions, customer growth, and new or changed legislation and regulation to gauge overall changes in financial health.

The table below provides a comparative review of key statement of net position captions.

<i>As of June 30,</i>	2020	2019	2018
Current assets	\$ 11,097,740	\$ 14,598,349	\$ 14,396,269
Restricted assets	1,811,313	2,030,678	1,044,949
Other non-current assets	83,410,225	77,638,699	78,476,292
Capital assets	75,716,839	69,690,193	66,055,776
Deferred outflows of resources	12,137,321	6,884,252	11,891,672
Total assets and deferred outflows of resources	\$ 184,173,438	\$ 170,842,171	\$ 171,864,958
Long-term liabilities	\$ 133,159,069	\$ 129,578,776	\$ 140,457,685
Other liabilities	13,671,340	14,951,736	9,765,432
Deferred inflows of resources	16,805,879	14,673,600	11,049,947
Total liabilities and deferred inflows of resources	163,636,288	159,204,112	161,273,064
Net investment in capital assets	75,716,839	69,690,193	66,055,775
Restricted	-	371,726	649,029
Unrestricted (deficit)	(55,179,689)	(58,423,860)	(56,112,910)
Total net position	20,537,150	11,638,059	10,591,894
Total liabilities, deferred inflows of resources, and net position	\$ 184,173,438	\$ 170,842,171	\$ 171,864,958

At June 30, 2020, the Water System had total assets and deferred outflows of resources of \$184.2 million of which \$75.7 million or 41% represents net capital assets.

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

Changes in net position can be seen by reviewing the following condensed statements of revenues, expenses, and changes in net position.

<i>Years ended June 30,</i>	2020	2019	2018
Base revenues	\$ 22,614,320	\$ 22,672,115	\$ 19,229,970
Fuel escalator revenues	10,355,858	7,767,873	5,745,500
Line loss surcharge	663,789	675,990	692,663
Interest income	4,183	2,848	15,744
Bad debt expense	(1,168,018)	(2,991,903)	(899,632)
Total revenues	32,470,132	28,126,923	24,784,245
Production cost of water distributed	13,881,940	14,154,179	12,045,668
Operating expenses, excluding production, depreciation, and amortization	13,471,481	14,689,630	17,003,391
Depreciation, net of amortization	1,337,744	1,228,854	1,211,667
Interest expense	562,756	574,755	251,816
Total expenses	29,253,921	30,647,418	30,512,542
Income (loss) before capital grants and contributions and special item	3,216,211	(2,520,495)	(5,728,297)
Capital grants and contributions	5,682,880	3,566,660	1,302,659
Impairment loss on capital assets	-	-	(1,273,354)
Increase (decrease) in net position	8,899,091	1,046,165	(5,698,992)
Net position, beginning of year	11,638,059	10,591,894	16,290,886*
Net position, end of year	\$ 20,537,150	\$ 11,638,059	\$ 10,591,894

*As restated for implementation of GASB Statement No. 75.

The Water System's net position increased by \$8.9 million during the fiscal year ended June 30, 2020. Key elements of the 2020 changes are as follows:

- Operating revenues have increased by \$4.3 million, or 15%, as base sales to customers and the Government rose to reflect growing demand post the September 2017 hurricanes that devastated the islands.
- Operating expenses decreased by \$1.4 million, or 5%, mainly as a result of a \$2.2 million decline in administrative general expenses and a further \$0.3 million decline in the production cost of water distributed, tempered by a \$1.0 million increase in operation and maintenance expenses.

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

The Water System's net position increased by \$1.0 million during the fiscal year ended June 30, 2019. Key elements of the 2019 changes are as follows:

- Operating revenues have increased by \$3.4 million, or 14%, as base sales to customers and the Government rose to reflect growing demand post the September 2017 hurricanes that devastated the islands.
- Operating expenses decreased by \$188 thousand, or 0.6%, mainly as a result of a \$2.6 million fall in administrative and general expenses tempered by \$2.4 increase in the production cost of water distributed and \$17 thousand in depreciation.
- Total production expenses have increased by \$2.1 million, or 18% when compared to the prior year mostly due to resumption of operations.

Capital Asset and Debt Administration

Capital Assets

The Water System's capital assets as of June 30, 2020, amounted to \$75.7 million (net of accumulated depreciation and property-related gains), which reflected an increase of \$6.0 million, or 9% compared to last year. These capital assets include land, transmission, distribution and collection systems, buildings and fixed equipment, and furniture, fixtures, and equipment. The table below provides the detail of capital assets net of accumulated depreciation and property-related gains.

<i>June 30,</i>	2020	2019	2018
Land	\$ 184,225	\$ 184,225	\$ 184,225
Utility plant in service	54,607,979	55,721,103	54,598,458
Buildings and fixed equipment	5,435,745	4,281,385	3,991,763
Furniture, fixtures, and equipment	993,997	381,041	463,514
Construction in progress	14,494,893	9,122,439	6,817,816
Net utility plant	\$ 75,716,839	\$ 69,690,193	\$ 66,055,776

The Authority's fiscal year 2020 capital budget included investing \$14.5 million in capital projects. Included in the amount of capital projects are \$9.2 million of water projects that have been identified for funding from the U.S. Department of Interior, U.S. Environmental Protection Agency, Virgin Islands local agencies, and \$0.7 million from the Virgin Islands Government Property Capital Tax Fund. The balance of the funding for the capital program was expected to be provided from internal sources, including available cash balances. Additional information on capital assets can be found in Note 6.

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

Long-Term Debt

The Authority has no taxing power, and its obligations are not debts of the Government of the United States Virgin Islands or of the United States of America. The table below provides the detail of long-term debt.

<i>June 30,</i>	2020	2019	2018
Revenue bonds	\$ 75,000,000	\$ 75,000,000	\$ 75,000,000

The Authority's ability to incur long-term indebtedness is capped by Virgin Islands statute at \$750.0 million for the Electric and Water Systems combined. As of June 30, 2020, combined long-term debt amounts to approximately \$459.1 million. Additional information on long-term debt can be found in Note 8.

Coronavirus COVID-19 Pandemic

In December 2019, a novel strain of coronavirus, known as COVID-19, was reported which quickly spread around the globe, including the United States and its Territories. In March 2020, the Governor of the U.S. Virgin Islands declared a state of emergency due to COVID-19. As various emergency measures are eased, management continues to actively monitor the evolving impact of the outbreak on customers, employees and vendors.

Requests for Information

This financial report is designed to provide a general overview of the Water System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Virgin Islands Water and Power Authority, P.O. Box 1450, St. Thomas, USVI 00804.

Financial Statements

Water System of the Virgin Islands Water and Power Authority

Statements of Net Position

June 30,	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,599,628	\$ 7,730,515
Accounts receivable:		
Customers and other, net	96,161	1,027,770
Virgin Islands Government, net	2,845,142	2,027,503
Grants receivable	326,101	37,292
Unbilled revenues	2,355,814	1,640,551
Inventories:		
Water	375,818	234,578
Materials and supplies	471,006	517,789
Prepayments and other current assets	2,028,070	1,382,351
Total current assets	11,097,740	14,598,349
Restricted assets:		
Cash and cash equivalents	1,811,313	2,030,678
Other noncurrent assets:		
Virgin Islands Government accounts receivable, net	319,232	2,638,699
Due from Electric System	8,090,993	-
Interfund advance to Electric System	75,000,000	75,000,000
Total other noncurrent assets	83,410,225	77,638,699
Capital assets:		
Utility plant in service	114,721,573	112,729,637
Less accumulated depreciation	(53,382,634)	(51,857,381)
Property-related gains, net	(301,218)	(488,727)
Net utility plant in service	61,037,721	60,383,529
Non-depreciable assets	14,679,118	9,306,664
Net capital assets	75,716,839	69,690,193
Deferred Outflows of Resources		
Pension related outflows	12,042,590	6,790,472
OPEB outflows	94,731	93,780
Total deferred outflows of resources	12,137,321	6,884,252
Total assets and deferred outflows of resources	\$ 184,173,438	\$ 170,842,171

Continued on next page.

Water System of the Virgin Islands Water and Power Authority

Statements of Net Position (continued)

June 30,	2020	2019
Liabilities, Deferred Inflows of Resources, and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,036,340	\$ 6,539,560
Fuel rate revenue refundable	1,973,724	4,231,769
Lines of credit	2,739,717	2,521,455
Total current liabilities	11,749,781	13,292,784
Liabilities payable from restricted assets:		
Unearned revenue	927,175	1,108,549
Accrued interest payable	994,384	550,403
Total liabilities payable from restricted assets	1,921,559	1,658,952
Long-term debt:		
Water System revenue bonds	75,000,000	75,000,000
Long-term liabilities:		
Net pension liability	49,059,514	44,298,575
Net OPEB liability	9,099,555	9,858,518
Due to Electric System	-	421,683
Total long-term liabilities	58,159,069	54,578,776
Total liabilities	146,830,409	144,530,512
Deferred inflows of resources:		
Pension related inflows	14,785,661	13,413,953
OPEB inflows	2,020,218	1,259,647
Total deferred inflows of resources	16,805,879	14,673,600
Net position:		
Net investment in capital assets	75,716,839	69,690,193
Restricted	-	371,726
Unrestricted (deficit)	(55,179,689)	(58,423,860)
Total net position	20,537,150	11,638,059
Total liabilities, deferred inflows of resources, and net position	\$ 184,173,438	\$ 170,842,171

See accompanying notes to financial statements.

Water System of the Virgin Islands Water and Power Authority

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30,	2020	2019
Operating Revenues		
Water sales to customers	\$ 11,985,022	\$ 12,776,297
Water sales to Virgin Islands Government	9,965,757	9,224,851
Fuel escalator revenues	10,355,858	7,767,873
Line loss surcharge	663,789	675,990
Other operating revenues	663,541	670,967
Bad debt expense	(1,168,018)	(2,991,903)
Total operating revenues	32,465,949	28,124,075
Operating and Production Expenses		
Production cost of water distributed	13,881,940	14,154,179
Operations and maintenance	7,430,776	6,386,649
Customer service	936,088	1,013,886
Administrative and general	5,104,617	7,289,095
Depreciation, net of amortization	1,337,744	1,228,854
Total operating and production expenses	28,691,165	30,072,663
Operating income (loss)	3,774,784	(1,948,588)
Nonoperating Revenues (Expenses)		
Interest expense	(562,756)	(574,755)
Interest income	4,183	2,848
Total nonoperating expenses	(558,573)	(571,907)
Change in net position, before capital grants and contributions	3,216,211	(2,520,495)
Capital grants and contributions	5,682,880	3,566,660
Increase in net position	8,899,091	1,046,165
Net position, beginning of year	11,638,059	10,591,894
Net position, end of year	\$ 20,537,150	\$ 11,638,059

See accompanying notes to financial statements.

Water System of the Virgin Islands Water and Power Authority

Statements of Cash Flows

Years Ended June 30,	2020	2019
Cash Flows from Operating Activities		
Receipts from customers	\$ 34,184,123	\$ 32,005,631
Payments to suppliers	(33,441,457)	(23,888,261)
Payments to employees	(3,826,633)	(3,400,164)
Net cash (used in) provided by operating activities	(3,083,967)	4,717,206
Cash Flows from Capital and Related Financing Activities		
Interest paid on long-term debt	-	(142,690)
Interest paid on lines of credit	(118,775)	(24,352)
Acquisition and construction of capital assets	(7,364,390)	(4,863,271)
Capital grants and contributions received	5,212,697	5,456,672
Net cash (used in) provided by capital and related financing activities	(2,270,468)	426,359
Cash Flows from Investing Activities		
Interest received	4,183	2,848
Net cash provided by investing activities	4,183	2,848
Net change in cash and cash equivalents	(5,350,252)	5,146,413
Cash and cash equivalents, beginning of year	9,761,193	4,614,780
Cash and cash equivalents, end of year	\$ 4,410,941	\$ 9,761,193

Continued on next page.

Water System of the Virgin Islands Water and Power Authority

Statements of Cash Flows (continued)

Years Ended June 30,	2020	2019
Cash and cash equivalents		
Unrestricted	\$ 2,599,628	\$ 7,730,515
Restricted	1,811,313	2,030,678
	\$ 4,410,941	\$ 9,761,193
Reconciliation of Operating Income (Loss) to Net Cash (Used in) Provided by Operating Activities		
Operating income (loss)	\$ 3,774,784	\$ (1,948,588)
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:		
Depreciation	1,525,253	1,416,363
Amortization of deferred property-related gains	(187,509)	(187,509)
Changes in operating assets and liabilities:		
Accounts receivable, net	1,718,174	3,881,556
Inventories	(94,457)	230,696
Prepayments and other current assets	(645,719)	(350,748)
Fuel rate revenue refundable	(2,258,045)	2,673,236
Due to (from) Electric System	(8,512,676)	(4,886,686)
Accounts payable and accrued liabilities	715,042	1,250,036
Net pension liability	4,760,939	(6,371,786)
Deferred outflows of resources	(5,253,069)	5,007,420
Deferred inflows of resources	2,132,279	3,623,653
Net OPEB liability	(758,963)	379,563
Net cash (used in) provided by operating activities	\$ (3,083,967)	\$ 4,717,206

See accompanying notes to financial statements.

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Virgin Islands Water and Power Authority (the Authority) is an instrumentality that was created by the government of the United States Virgin Islands (the Government) in 1964. The Authority was created to operate a water production and distribution system (the Water System) and an electric generation and distribution system (the Electric System) in the United States Virgin Islands. The Authority is governed by a nine-member board, three of whom are appointed by the Governor of the Virgin Islands from his Cabinet, and six of whom are nominated by the Governor of the Virgin Islands and confirmed by the Virgin Islands Legislature. As such, the Government has determined that the Authority is a component unit. The Water and Electric Systems are separately financed, and each system's indebtedness is repayable from its net revenues. The Authority is required by its bond resolutions to maintain separate accounting for each system. Each system is a major fund of the Authority for financial reporting purposes.

The Water System of the Authority accounts for all activities associated with the production and distribution of water to customers. The accompanying financial statements include only the financial activities of the Water System major fund and are not intended to present fairly the financial position and changes in net position of the Authority.

Measurement Focus and 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.

In accordance with the Water System Revenue Bond Resolution (Bond Resolution), rates are designed to cover debt service, capital expenditures, and other operating expense requirements, excluding depreciation and other noncash expense items. This method of rate setting results in costs being included in the determination of rates in different periods rather than when these costs are recognized for financial statement purposes.

Rates and Regulation

The Authority is regulated by the Virgin Islands Public Services Commission (PSC or the Commission). The Commission has the authority to approve, modify, or deny any proposed rate changes made by the Authority.

The Authority is further subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which address accounting rules for regulated operations. This standard allows regulated entities such as the Authority to record certain assets or liabilities as a result of the regulated ratemaking process.

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Regulatory assets generally represent incurred costs that have been capitalized because such costs are probable of future recovery in customer rates and for the Water System, these include fuel costs recoverable.

Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred or items that will be credited to customers in future periods and for the Water System, these include fuel rate revenue refundable and unamortized property-related gains.

At June 30, 2020 and 2019, the fuel rate revenue refundable balance was \$2.0 million and \$4.2 million, respectively, which represent an excess collection of the Levelized Energy Adjustment Clause (LEAC) over the actual fuel costs incurred and will be refunded to customers in subsequent billings. Regulatory liabilities also include property-related gains, net of accumulated amortization, of \$301 thousand and \$489 thousand as of June 30, 2020 and 2019, respectively, which are being amortized over future periods as approved by the Commission.

In order for a rate-regulated entity to continue to apply the provisions of GASB Statement No. 62, it must meet the following three criteria: (1) the enterprise's rates for regulated services provided to customers must be established by an independent 3rd party regulator or its own governing board empowered by a statute to establish rates that bind customers, (2) the regulated rates must be designed to recover the specific enterprise's costs of providing the regulated services, and (3) in the view of the demand for the regulated services and level of competition, it is reasonable to assume that rates, set at levels that will recover the enterprise's costs, can be charged and collected from customers.

Management believes that the Authority currently meets the criteria for continued application of GASB Statement No. 62, but will continue to evaluate significant changes in the regulatory and competitive environment to assess the ability to continue to apply GASB Statement No. 62. If the Authority no longer applied GASB Statement No. 62 due to competition, regulatory changes, inadequate rates, or other reasons, the Authority would make certain adjustments that would include the write-off of all or a portion of its regulatory assets and liabilities, the evaluation of utility plant, contracts, and commitments, and the recognition, if necessary, of any losses to reflect market conditions.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, bank demand accounts, money market accounts, certificates of deposit, and overnight repurchase agreements. The Authority considers all investments with an original maturity of three months or less to be cash equivalents.

Inventories

Water, materials, and supplies inventories are stated at cost using the weighted-average unit cost method, which approximates the first-in, first-out method. Obsolete and unusable inventory is reduced to estimated salvage value.

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Prepayments and Other Current Assets

Prepayments and other current assets consist primarily of amounts paid by the Authority for services not yet provided by vendors, which primarily relate to property and liability insurance.

Capital Assets

Capital assets are recorded at cost, which includes material, payroll-related costs, overhead, and an allowance for borrowed funds used during construction. Capital expenditures of \$1,000 or more are capitalized. Maintenance and repairs are charged to operating expense as incurred. The cost of depreciable plant retired is eliminated from the utility plant accounts, and such costs, plus cost of removal less salvage, are charged to accumulated depreciation.

Depreciation of capital assets is computed using the straight-line method over estimated service lives ranging from 3 to 100 years. Depreciation expense is net of the property-related gain amortization of \$188 thousand for each of the years ended June 30, 2020 and 2019. Depreciation, net of property-related gain amortization, was equivalent to 1.17% and 0.93% of average depreciable property for the years ended June 30, 2020 and 2019, respectively.

In accordance with accounting principles generally accepted in the United States of America, management reviews the estimated useful lives of capital assets on a periodic basis. The results of an engineering condition assessment and depreciation rate review indicated the lives of certain utility plant assets were longer than the estimated useful lives used for depreciation purposes in the Water System's financial statements. As a result, effective July 1, 2013, estimates of the useful lives were changed to better reflect the estimated periods during which these assets will remain in service.

The Authority also 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.

Property-Related Gains

Insurance and Federal Emergency Management Agency (FEMA) proceeds exceeded the net book value of assets retired as a result of damages sustained from Hurricane Hugo in September 1989 and Hurricane Marilyn in September 1995. To account for these excess proceeds, the Authority recorded property-related gains to be recovered in future periods as mandated by the Commission. The property-related gains are being amortized and offset against depreciation expense over the estimated useful lives of the replacement assets. At June 30, 2020 and 2019, property-related gains, net of accumulated amortization, totaled \$301 and \$489 thousand, respectively.

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 for the Water System consist of unrecognized items not yet charged to pension expense and OPEB expense and contributions from the employer after the measurement date but before the end of the employer's reporting period, as may be applicable.

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Compensated Absences

The Authority accrues for compensated absences in accordance with accounting principles generally accepted in the United States of America. The Authority allows vesting of permanent employee annual leave, which is governed by the period of employment. Vested annual leave in excess of 480 hours may be transferred to the Employees' Retirement System of the Government of the Virgin Islands (GERS) for retirement service credit.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and 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 GERS. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Also see Note 9.

Net Other Postemployment Benefits (OPEB) Liability

The Authority provides certain postemployment health care benefits to retired employees under a single employer health insurance plan (OPEB plan). The Authority has an established trust for its OPEB obligations (OPEB Trust) that is held by an independent custodian. The OPEB Trust issues a stand-alone financial report.

The Authority's net OPEB liability as of June 30, 2020 and June 30, 2019, was measured using an actuarial valuation date of June 30, 2019 and June 30, 2017, respectively. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expenses, information about the fiduciary net position of the OPEB Trust, and additions to/deductions from the OPEB Trust's fiduciary net position have been determined on the same basis as they are reported by the Authority's OPEB plan as of the same measurement date. For this purpose, the Authority's OPEB plan recognizes benefit payments when due and payable in accordance with the benefit terms.

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 of 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.

Inter-System Transactions

As of June 30, 2020 and 2019, the Water System had a receivable from the Electric System in the amount of \$8.1 million and a payable of \$422 thousand, respectively, as a result of transfer of cash to pay for fuel costs incurred, and other allocated operating, maintenance, and administrative expenses.

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Furthermore, in order to fund its working capital needs in the aftermath of the hurricanes, the Authority obtained \$75.0 million under the Community Disaster Loan program administered by FEMA. This loan is secured as a first lien of the Water System's revenues. The proceeds of these loans were used to provide working capital mostly for fuel invoices, payroll, and other critical operating expenses. While the loan is reflected under the Water System, the payment of principal and interest is subject to an intercompany agreement whereby 17% will be allocated to the Water System and 83% to the Electric System. Also see Note 8.

These intersystem balances are noninterest-bearing and have no set repayment date. The Water System has classified these balances as noncurrent because it did not expect to collect or pay such amounts within 12 months of the respective fiscal year-ends.

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 for the Water System consist of the unamortized portion of the net differences between projected and actual earnings on pension plan and OPEB plan investments, changes in assumptions, changes in proportionate share of pension, and other differences between expected and actual experience.

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on its use, either through legislation or external restrictions imposed by creditors, grantors, laws, or regulations. Unrestricted Net Position consists of assets which do not meet the definition of the two preceding categories.

Revenue Recognition

Revenues are recorded as service is provided to customers. The Water System accrues the nonfuel portion of base revenues for services rendered but unbilled. The cost of fuel for the Water System is passed directly through to its customers. Every six months, the Commission establishes a LEAC rate that is designed to true-up the fuel costs recovered through the Water System's base rates.

If the amount recovered through rates exceeds actual fuel costs, the Water System records fuel costs refundable as a regulatory liability, plus interest at 8.75%, for amounts to be refunded through future rates over the following six-month period. If the amount recovered through rates is less than the actual fuel costs, the Water System records fuel costs recoverable as a regulatory asset, without interest, for amounts to be collected through future rates, generally over the following six-month period.

The Water System distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering water, in connection with the Water System's principal ongoing operations.

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

The principal operating revenues for the Water System are charges to customers for sales and services. Operating expenses for the Water System include the cost of sales and services, administrative expenses, and depreciation on utility plant. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Capital Grants and Contributions

The United States Government and the Virgin Islands Government appropriate and make available to the Authority grant funds for the construction and improvement of water production and distribution facilities. The assets and revenues arising from government grants are recorded when the Authority meets the eligibility requirements. If resources are received in advance of satisfying certain eligibility requirements, the recognition of revenues is deferred.

The Authority also receives capital contributions from customers (nongovernment) for construction and improvement of the facilities. The Authority maintains ownership and operation of the facilities. For the years ended June 30, 2020 and 2019, the Water System recognized capital grants of \$5.7 million and \$3.6 million, respectively, from the United States Government. No such amounts were received from the Virgin Islands Government for the years ended June 30, 2020 and 2019.

Cost Allocation

The Water and Electric Systems share administrative and operating personnel. Payroll and a substantial portion of other operating expenses are initially incurred by the Electric System and are subsequently allocated to the Water System based on labor costs and hours. The operating costs allocated to the Water System for the years ended June 30, 2020 and 2019, amounted to \$4.8 million and \$5.5 million, respectively.

Expenses incurred for common or integrated facilities are allocated between the systems using an engineering study that is based on monthly production statistics and the Water System's power consumption. The production costs allocated to the Water System for the years ended June 30, 2020 and 2019, amounted to \$2.5 million and \$2.6 million, respectively.

Commitments and Contingencies

The Authority accrues liabilities for loss contingencies, including deductibles for insurance claims and environmental remediation costs, arising from claims, assessments, litigation, fines and penalties, and other sources when it is probable that a liability has been incurred and the amount of the claim, assessment, and/or remediation can be reasonably estimated.

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.

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Adoption of Accounting Procurements

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the Authority's financial statements for the year ended June 30, 2020. The Authority has evaluated this Statement and has determined there is no impact on the financial statements, as it does not own any types of tangible capital assets which have a legal obligation to perform future asset retirement activities.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement improves consistency in the information that is disclosed in notes to the financial statements related to debt, including direct borrowings and direct placements and it provides additional essential information about debt to the user of the financial statements. The requirements of this Statement are effective for the Authority's financial statements for the year ended June 30, 2020. The Authority has evaluated this Statement and has included the required information in Notes 7 and 8.

Following are statements issued by GASB that are effective in future years. In light of the COVID-19 pandemic, on May 8, 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, to provide relief to governments. This Statement, which was effective upon issuance, postpones the effective dates of certain provisions in these upcoming pronouncements for one year, except for GASB Statement No. 87 which is postponed for eighteen months. Certain provisions of GASB Statement No. 92 are excluded from GASB Statement No. 95 along with provisions in GASB Statement No. 93 related to lease modifications.

GASB Statement No.		Adoption Effective in Fiscal Year (as Revised)
84	Fiduciary Activities	2021
87	Leases	2022
89	Accounting for Interest Cost Incurred Before the End of a Construction Period	2022
90	Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61	2021
91	Conduit Debt Obligations	2023
92	Omnibus 2020	2022
93	Replacement of Interbank Offered Rates	2022
96	Subscription-Based Information Technology Agreements	2023
97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32	2022

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Following are statements issued by GASB that are effective in future years as based on the original effective dates.

GASB Statement No.		Adoption Effective in Fiscal Year
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	2023
98	The Annual Comprehensive Financial Report	2022

Earlier application of all standards is permitted to the extent specified in each pronouncement as originally issued. The Authority is currently evaluating the impact of these statements.

2. Deposits and Investments

In accordance with its policies and Revenue Bond Resolution, the Authority is authorized, with certain restrictions, to invest in open accounts, time deposits, certificates of deposit, repurchase agreements, obligations of the United States Government, and obligations of any state within the United States, mutual funds, and corporate commercial paper.

The Water System held certificates of deposits of approximately \$1.8 million as of June 30, 2020 and 2019, with a maturity date of less than a year. Cash deposits were \$2.6 million and \$8.0 million as of June 30, 2020 and 2019, respectively.

Interest Rate Risks - As a means of limiting its exposure to fair value losses from rising interest rates, the Authority has an investment practice for operating funds which is structured to provide sufficient liquidity to pay obligations as they come due and (1) limits 80% of investments to not more than one-year maturities and (2) requires that the portfolio have no more than 20% in securities maturing in or having an average life of more than ten years. Bond proceeds and reserve funds are managed in accordance with bond covenants and funding needs which could result in maturities longer than ten years.

Credit Risks and Concentration of Credit Risks - As of June 30, 2020, the Water System's exposure to credit risk is evaluated by the ratio of investments including deposits and investments in U.S. government securities, certificates of deposit, and cash deposits. The Authority places no limit on the amount the Water System may invest in any one permitted investment type.

As of June 30, 2020, 40% of the Water System's cash is invested in certificates of deposit and 60% are in cash deposits. As of June 30, 2019, 18% of the Water System's cash is invested in certificates of deposit and 82% are in cash deposits.

Custodial Risks - Custodial credit risk is the risk that in the event of bank failure, the Authority's deposit 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. The Authority places both Water and Electric System cash and cash equivalents with some of the same high credit quality financial institutions that are federally insured. Therefore, in the event of a loss, federal insurance recoveries would have to be allocated among the two systems.

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

As such, the potential amounts held in excess of the FDIC limits for the Water System were \$4.4 million at June 30, 2020. The Authority has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

3. Accounts Receivable

Accounts receivable, current and non-current, at June 30, 2020 and 2019, consists of the following:

	2020	2019
Customers	\$ 10,661,287	\$ 10,669,177
Other	6,291	3,105
Less allowance for doubtful accounts	(10,571,417)	(9,644,512)
Customers and other, net	96,161	1,027,770
Virgin Islands Government	3,207,962	4,709,807
Less allowance for doubtful accounts	(43,588)	(43,605)
Virgin Islands Government, net	3,164,374	4,666,202
Grants	326,101	37,292
Unbilled revenues	2,355,814	1,640,551
Accounts receivable, net	\$ 5,942,450	\$ 7,371,815

The Government and its various instrumentalities have largely remained current regarding payment on outstanding receivable balances and have increased the percentage of remittances on current billings for services.

The Authority has made certain arrangements with specific governmental agencies concerning the collection of past due accounts receivable. As of June 30, 2020 and 2019, the Authority has classified Government accounts receivable of approximately \$319 thousand and \$2.6 million, respectively, as noncurrent because these balances are expected to take longer than one year from the statement of net position dates to be paid by the various government agencies.

4. Restricted Assets

The Water System Revenue Bond Resolution, as amended, and certain Commission regulatory orders establish the following funds and accounts, which are restricted as to their usage:

Construction and Rehabilitation Funds - Amounts in the Construction and Rehabilitation Funds shall be used to pay the cost of construction of plant and equipment used in the production and distribution of water. The Construction and Rehabilitation Funds are held by the Authority.

Line Loss Fund - Amounts maintained in the Line Loss Fund are to be utilized for projects that address losses on the Water System. The Line Loss Fund is held by the Authority.

Water System revenues and all funds established by the Bond Resolution are pledged for payment of bond principal and interest. The trustee funds as outlined above consist primarily of cash equivalents. Other funds specified by the Bond Resolution and the Commission are also primarily in cash and cash equivalents.

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

It is the Authority's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

Restricted assets at June 30, 2020 and 2019, consist of the following:

	2020	2019
Rehabilitation Fund	\$ 519,138	\$ 518,151
Construction Fund	234,234	203,172
Line Loss Fund	130,766	200,806
Advances on Grants	927,175	1,108,549
	\$ 1,811,313	\$ 2,030,678

5. Advances on Grants

The Authority received advance grant funding from the Government to improve the water distribution system and to extend the water lines to Anna's Retreat and Smith Bay for the purpose of making potable water available to customers on the eastern end of St. Thomas. As of June 30, 2020, and 2019, the Authority received \$0.9 million and \$1.1 million of the advances, respectively, and these are reflected as unearned revenue in the accompanying Statements of Net Position.

6. Capital Assets

Capital assets activity for the year ended June 30, 2020, was as follows:

Description	Beginning Balance	Additions	Transfers	Impairment, Disposals, and Other	Ending Balance
Non-depreciable assets:					
Land and land right	\$ 184,225	\$ -	\$ -	\$ -	\$ 184,225
Constructions in progress	9,122,439	5,662,556	(290,102)	-	14,494,893
Total non-depreciable assets	9,306,664	5,662,556	(290,102)	-	14,679,118
Depreciable assets:					
Utility plant	112,729,637	1,701,834	290,102	-	114,721,573
Accumulated depreciation	(51,857,381)	(1,525,253)	-	-	(53,382,634)
Property-related gains	(488,727)	-	-	187,509	(301,218)
Total depreciable assets, net	60,383,529	176,581	290,102	187,509	61,037,721
Capital assets, net	\$ 69,690,193	\$ 5,839,137	\$ -	\$ 187,509	\$ 75,716,839

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Capital assets activity for the year ended June 30, 2019, was as follows:

Description	Beginning Balance	Additions	Transfers	Impairment, Disposals, and Other	Ending Balance
Non-depreciable assets:					
Land and land right	\$ 184,225	\$ -	\$ -	\$ -	\$ 184,225
Constructions in progress	6,817,816	3,432,644	(1,128,021)	-	9,122,439
Total non-depreciable assets	7,002,041	3,432,644	(1,128,021)	-	9,306,664
Depreciable assets:					
Utility plant	110,170,989	1,430,627	1,128,021	-	112,729,637
Accumulated depreciation	(50,441,018)	(1,416,363)	-	-	(51,857,381)
Property-related gains	(676,236)	-	-	187,509	(488,727)
Total depreciable assets, net	59,053,735	14,264	1,128,021	187,509	60,383,529
Capital assets, net	\$ 66,055,776	\$ 3,446,908	\$ -	\$ 187,509	\$ 69,690,193

7. Lines of Credit

At June 30, 2020, the Authority has available bank lines of credit of \$2.3 million for the Water System. Interest on amounts borrowed is payable quarterly at a variable interest rate of prime plus 0.50%, or 90-days London Inter-Bank Offer Rate (LIBOR) plus 4.50%.

The Authority has the option to select the variable interest rate to utilize for any borrowings on these notes. At June 30, 2020 and 2019, there was \$2.7 million and \$2.5 million outstanding under the lines of credit for the Water System, respectively. The lines were extended to have a maturity of July 2022.

Furthermore, there are certain financial reporting covenants that the Authority must comply with. The agreements require the Authority to deliver audited financial statements within 180 days after the end of its fiscal year. The banks have granted the Authority a waiver from this requirement for the year ended June 30, 2020.

8. Long-Term Liabilities

Long-term debt consists of the following at June 30:

	2020	2019
2018 Series, Water System Revenue and Refunding Bonds, interest payable semiannually at 2.3% - 2.9%, maturing semiannually through July 1, 2033. Interest is paid in January and July.	\$ 75,000,000	\$ 75,000,000
Less current installments	-	-
Long-term debt, excluding current installments	\$ 75,000,000	\$ 75,000,000

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In November 2017, in order to fund its working capital needs in the aftermath of Hurricanes Irma and Maria, the Authority obtained \$31.0 million under the Community Disaster Loan program administered by FEMA. In March 2018, the Authority entered into another loan for \$44.0 million and refinanced the existing \$31.0 million for a combined loan of \$75.0 million, secured now as a first lien of the Water System's revenues. The proceeds of these loans were used to provide working capital mostly for fuel invoices, payroll, and other critical operating expenses. While the loan is reflected under the Water System, the payment of principal and interest is subject to an intercompany agreement whereby 17% will be allocated to the Water System and 83% to the Electric System. The interest rate varies with each draw-down, ranging from 2.3% to 2.9%. The first interest payment is due July 1, 2021 with subsequent payments due semiannually. The first principal payment is due July 1, 2022 with subsequent payments due semiannually. Also see Note 13.

As a result of the disruption to the Authority's operations from Hurricanes Irma and Maria, the Authority did not comply with certain reporting requirements. However, as per the Authority's bond resolutions and loan agreements, this does not constitute an event of default and the Authority continues to work diligently to monitor such requirements. The following is a schedule of changes in long-term debt for the year ended June 30, 2020:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 75,000,000	\$ -	\$ -	\$ 75,000,000	\$ -

The following is a schedule of changes in long-term debt for the year ended June 30, 2019:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 75,000,000	\$ -	\$ -	\$ 75,000,000	\$ -

Future debt service requirements to maturity as of June 30, 2020, on the revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	\$ -	\$ 1,072,710	\$ 1,072,710
2022	-	4,961,092	4,961,092
2023	3,541,921	4,207,155	7,749,076
2024	5,887,315	1,877,660	7,764,975
2025	6,063,294	1,718,620	7,781,914
2026 - 2030	33,180,936	6,033,939	39,214,875
2031 - 2035	26,326,534	1,433,087	27,759,621
Total	\$ 75,000,000	\$ 21,304,263	\$ 96,304,263

Water System of the Virgin Islands Water and Power Authority

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9. Pension Plan

Following is a description of the pension plan and accounting for pension expense, liabilities, and deferred outflows/inflows of resources. 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*.

Plan Description and Benefits

Full time employees of the Authority are members of the Government Employees' Retirement System of the U.S. Virgin Islands (GERS), a cost sharing multi-employer, defined benefit pension plan (the plan) established as of October 1, 1959 Title 3, Chapter 27 of the Virgin Islands Code to provide retirement, death, and disability benefits. Benefits may be extended to beneficiaries of plan members.

The plan covers all employees of the Authority, except employees compensated on a contract fee basis, casual, per diem or provisional, and part time employees who work less than twenty (20) hours per week. Persons over the age of fifty-five (55) may opt out of the plan by providing formal notification to the plan. Vesting of benefits occurs after ten (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 Tier I employees who have completed thirty (30) years of credited service or have attained age sixty (60) with at least ten (10) years of credited service are eligible for a full-service retirement annuity. Regular Tier II employees who have attained age sixty-five (65) with at least ten (10) years of service are eligible for a full-service retirement annuity.

Members who are considered "safety employees" as defined in the Code are eligible for full-service retirement benefits under Tier I when they have earned at least twenty (20) years of government service or have reached the age of fifty-five (55) with at least ten (10) years of credited service. Under Tier II, safety employees are eligible for full retirement when they have earned at least twenty-five (25) years of government service and have reached age fifty-eight (58) or have reached age (60) with at least ten (10) years of service.

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation for regular and safety 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 regular and safety Tier II members is based on career average salary, 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.

Water System of the Virgin Islands Water and Power Authority

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In 1995, the Early Retirement Incentive Training and Promotion Act was amended by the Legislature to allow a member with a combined aggregate number of years of service and age of at least seventy-five (75) years to retire without a reduction in their annuity. Early retirement benefits provided under the Act vary depending upon age of retirement, type of employment, and credited years of service.

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 Government Employees' Retirement System of the U.S. Virgin Islands, 3438 Kronprindsens Gade, St. Thomas, Virgin Islands 00802.

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. On January 1, 2020, the employer contribution for Tier I and Tier II members was increased to 23.50%.

Employee contribution rates (as a percentage of payroll) for fiscal years 2020 and 2019 were as follows:

	<u>Tier 1</u>	<u>Tier 2</u>
Regular Employees	11.0%	11.5%
Public Safety Employees	13.0%	13.625%

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 Government have a September fiscal year end, which differs from the Authority's 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:

	<u>2020</u>	<u>2019</u>
Valuation Date	October 1, 2019	October 1, 2018
Measurement Date	September 30, 2019	September 30, 2018
Measurement Period	October 1, 2018 - September 30, 2019	October 1, 2017 - September 30, 2018

The Authority is considered an employer of the plan with a proportionate share of 5.4300% and 6.2448% as of the measurement dates of September 30, 2019 and 2018, respectively. The Authority's percentage was estimated by management based on the average of each employer's contributions during the period October 1, 2014 through September 30, 2019.

Water System of the Virgin Islands Water and Power Authority

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Management has determined an allocation percentage to apply to the Electric System and Water System based on those systems' employment burdens to the Authority as a whole (approximately 83% and 17%, respectively).

The Authority's proportionate share of employer contributions recognized by GERS was \$4.9 million and \$5.1 million for the plan's fiscal years ended September 30, 2019 and 2018, respectively. The Water System's allocated share of employer contributions for the same periods were \$0.8 million and \$0.9 million, respectively.

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

As of June 30, 2020 and 2019, the Authority's proportionate share of the net pension liability of the Plan was \$288.6 million and \$260.6 million, respectively, and the allocation to the Water System was \$49.1 million and \$44.3 million, respectively. The net pension liability of the plan is measured as of September 30, 2019 and 2018, 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, 2019 and 2018, respectively.

For the years ended June 30, 2020 and 2019, the Authority recognized pension expense of \$5.6 million and \$13.6 million, respectively, inclusive of amortization of deferred outflows of pension related items. Of those amounts, \$0.9 million and \$2.3 million was allocated to the Water System's pension expense, respectively.

Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Water System in the computation of net pension liability for the year ended June 30, 2020:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 10,876,437	\$ 3,917,928
Net difference between projected and actual earnings on pension plan investments	27,813	-
Difference between expected and actual experience	605,325	22,725
Changes in proportionate share	-	10,845,008
Contributions made subsequent to measurement date	533,015	-
	\$ 12,042,590	\$ 14,785,661

Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Water System in the computation of net pension liability for the year ended June 30, 2019:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 5,207,526	\$ 5,516,659
Net difference between projected and actual earnings on pension plan investments	83,658	-
Difference between expected and actual experience	1,028,493	-
Changes in proportionate share	-	7,897,294
Contributions made subsequent to measurement date	470,795	-
	\$ 6,790,472	\$ 13,413,953

Water System of the Virgin Islands Water and Power Authority

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 June 30,

2021	\$ (1,511,439)
2022	(520,011)
2023	(525,410)
2024	(282,213)
2025	(437,013)
Thereafter	-
	\$ (3,276,086)

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, 2019 and 2018 is provided below, including any assumptions that differ from those used in the corresponding October 1, 2019 and 2018 actuarial valuations. Refer to the October 1, 2019 and 2018 actuarial valuation reports for a complete description of all other assumptions, which can be found on GERS' website.

<i>September 30,</i>	2019	2018
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	4.00%	7.00%
Municipal Bond Yield	2.66%	4.18%
Discount Rate	2.67%	4.25%
Mortality Table	RP-2014 Blue Collar	RP-2014 Blue Collar

The demographic assumptions for the 2019 actuarial valuation 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 4.00% and 7.00% for the years ended 2019 and 2018, 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.

Water System of the Virgin Islands Water and Power Authority

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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, 2019, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	9%	6.23%
International equity	60%	0.98%
Fixed income	10%	4.33%
Cash	12%	0.48%
Alternative	9%	10.23%

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, 2018, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	29%	6.16%
International equity	12%	6.71%
Fixed income	27%	1.71%
Cash	2%	0.91%
Alternative	30%	5.50%

Discount Rate

The discount rate used to measure the total pension liability was 2.67% as of the measurement date at September 30, 2019, and 4.25% as of the measurement date at September 30, 2018. 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 4.00% 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 2.66% and 4.18% as of the measurement date at September 30, 2019 and 2018, respectively.

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

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

The following presents the Water System's allocation of the Authority's proportionate share of the net pension liability (NPL) for the plan, calculated using the discount rate, as well as what the Water System's allocation of the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate for the year ended June 30, 2020:

1.00% Decrease - Share of NPL @ 1.67%	Share of NPL @ 2.67%	1.00% Increase - Share of NPL @ 3.67%
\$ 56,921,589	\$ 49,059,514	\$ 42,615,604

The following presents the Water System's allocation of the Authority's proportionate share of the net pension liability (NPL) for the plan, calculated using the discount rate, as well as what the Water System's allocation of the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate for the year ended June 30, 2019:

1.00% Decrease - Share of NPL @ 3.25%	Share of NPL @ 4.25%	1.00% Increase - Share of NPL @ 5.25%
\$ 50,955,483	\$ 44,298,575	\$ 38,767,522

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

10. Other Post-Employment Benefits (OPEB) Plan

Plan Description and Benefits

The Authority provides certain post-employment health care benefits to retirees under a health insurance plan. These benefits are extended at the discretion of the Authority, which reserves the right to change or terminate benefits and to change premium contributions required from retirees in the future as circumstances change. All employees who are eligible for service retirement with the GERS (see Note 9) qualify for the Authority's post-employment health care benefits. An OPEB trust, the Virgin Islands Water and Power Authority Voluntary Employees' Beneficiary Association Trust, was established during the measurement period ended on June 30, 2017.

The post-employment benefits include continued access to coverage for the retiree and dependents in the medical, prescription, and dental plan sponsored by the Authority. At June 30, 2020, the following current and former employees were covered by the benefit terms:

Active employees	490
Inactive employees or beneficiaries	411
Total participants	901

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Net OPEB Liability

The Authority employs an actuary to assist in estimating the OPEB liability for the Authority as a whole and then allocates that liability and related cost systematically to the Water and Electric Systems. The total OPEB liability for the Authority's years ended June 30, 2020 and June 30, 2019 were measured as of June 30, 2019 and June 30, 2018, respectively, using an actuarial valuation date of June 30, 2019 and June 30, 2017, respectively.

The following table shows the allocated components of the Water System's changes in the total OPEB liability, the plan fiduciary net position, and the net OPEB liability during the measurement period ended June 30, 2019:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balances	\$ 10,635,410	\$ 776,892	\$ 9,858,518
Changes for the year:			
Service cost	373,828	-	373,828
Interest	433,337	-	433,337
Difference between expected and actual experience	(265,575)	-	(265,575)
Changes to assumptions	(905,562)	-	(905,562)
Contributions - employer	-	116,780	(116,780)
Contributions - other	-	230,937	(230,937)
Net investment income	-	47,274	(47,274)
Benefit payments	(351,611)	(351,611)	-
Distributions - other	-	-	-
Net changes	(715,583)	43,380	(758,963)
Ending balances	\$ 9,919,827	\$ 820,272	\$ 9,099,555

Water System of the Virgin Islands Water and Power Authority

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The following table shows the allocated components of the Water System's changes in the total OPEB liability, the plan fiduciary net position, and the net OPEB liability during the measurement period ended June 30, 2018:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balances	\$ 10,200,455	\$ 721,500	\$ 9,478,955
Changes for the year:			
Service cost	357,696	-	357,696
Interest	415,560	-	415,560
Changes to assumptions	-	-	-
Contributions - employer	-	82,683	(82,683)
Contributions - other	-	255,618	(255,618)
Net investment income	-	55,392	(55,392)
Benefit payments	(82,683)	(82,683)	-
Distributions - other	(255,618)	(255,618)	-
Net changes	434,955	55,392	379,563
Ending balances	\$ 10,635,410	\$ 776,892	\$ 9,858,518

Actuarial Assumptions

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Salary Increases:	3.25%, including inflation
Investment rate of return:	4.00%
Healthcare cost trend rates:	Based on the Getzen Model, with trend starting at 19.70% in fiscal year 2020 to reflect actual premiums, 6.25% in fiscal year 2021, and gradually decreasing to an ultimate trend rate of 4.02%. The ultimate trend value includes a 0.27% load for cadillac tax.
Mortality:	For pre-retirement mortality and post-retirement healthy mortality, 110% of the RP-2014 Blue Collar Employee Mortality Table with generational projection from 2015 using Scale MP-2015. For post-retirement disabled lives, 125% of the RP-2014 Disabled Annuitant Mortality Table with generational projection from 2015 using Scale MP-2015.

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Discount Rate

GASB Statement No. 75 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the total OPEB liability (TOL). This rate considers the ability of the fund to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses, and investment returns are projected into the future. The projected plan fiduciary net position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. For years when assets are projected to be on hand to meet benefit payments, the assumed net long-term rate of return is used as the discount rate. For years when assets are not projected to be sufficient to meet benefit payments, the use of a specific municipal yield is used as the discount rate, as described in the following paragraph.

The Single Discount Rate (SDR) is equivalent to applying the following two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on OPEB plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by Fidelity) as of the measurement date (to the extent that the projected plan fiduciary net position based on the long-term expected rate of return is insufficient to pay benefits).

For the purpose of this measurement, the expected rate of return on OPEB plan investments is 4.00% and the municipal bond rate is 3.13% as of June 30, 2019. The Authority does not have a formal funding policy. However, the Authority has a track record of paying benefits out of its general revenue in addition to depositing ad hoc amounts into the OPEB trust. It was assumed that the Authority would continue this practice. Based on the current pattern, the OPEB plan's fiduciary net position together with the future contributions are expected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Water System's allocation of the Authority's net OPEB liability (NOL) to changes in the Single Discount Rate, calculated using a Single Discount Rate of 4.00%, as well as what the Water System's allocation of the Authority's net OPEB liability would be if it were calculated using a Single Discount Rate that is 1.00% lower or 1.00% higher than the current rate for the year ended June 30, 2020:

1.00% Decrease - Share of NOL @ 3.00%	Share of NOL @ 4.00%	1.00% Increase - Share of NOL @ 5.00%
\$ 10,493,464	\$ 9,099,555	\$ 7,951,905

Water System of the Virgin Islands Water and Power Authority

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The following presents the Water System's allocation of the Authority's net OPEB liability (NOL) to changes in the Single Discount Rate, calculated using a Single Discount Rate of 4.00%, as well as what the Water System's allocation of the Authority's net OPEB liability would be if it were calculated using a Single Discount Rate that is 1.00% lower or 1.00% higher than the current rate for the year ended June 30, 2019:

1.00% Decrease - Share of NOL @ 3.00%	Share of NOL @ 4.00%	1.00% Increase - Share of NOL @ 5.00%
\$ 11,511,212	\$ 9,858,518	\$ 8,515,364

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

Regarding the sensitivity of the net OPEB liability to changes in the healthcare cost trend rates, the following presents the Water System's allocation of the Authority's net OPEB liability, calculated using the same trend rates as employed in the most recent funding valuation as well as what the plan's net OPEB liability would be if it were calculated using a sequence of rates that are 1.00% lower or 1.00% higher than the current rate for the year ended June 30, 2020:

1.00% Decrease	Current Healthcare Cost Trend Rate Assumption Baseline	1.00% Increase
\$ 7,802,199	\$ 9,099,555	\$ 10,725,477

The following presents the Water System's allocation of the Authority's net OPEB liability, calculated using the same trend rates as employed in the most recent funding valuation as well as what the plan's net OPEB liability would be if it were calculated using a sequence of rates that are 1.00% lower or 1.00% higher than the current rate for the year ended June 30, 2019:

1.00% Decrease	Current Healthcare Cost Trend Rate Assumption Baseline	1.00% Increase
\$ 8,505,654	\$ 9,858,518	\$ 11,855,919

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in a separate Trust financial report.

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the Authority recognized OPEB expense of \$2.0 million of which \$0.3 million was allocated to the Water System. Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Water System in the computation of net OPEB liability for the year ended June 30, 2020:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 1,759,859
Difference between expected and actual experience	-	227,086
Net difference between projected and actual earnings on pension plan investments	-	33,273
Contributions made subsequent to measurement date	94,731	-
	\$ 94,731	\$ 2,020,218

For the year ended June 30, 2019, the Authority recognized OPEB expense of \$2.9 million of which \$0.5 million was allocated to the Water System. Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Water System in the computation of net OPEB liability for the year ended June 30, 2019:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 1,231,923
Net difference between projected and actual earnings on pension plan investments	-	27,724
Contributions made subsequent to measurement date	93,780	-
	\$ 93,780	\$ 1,259,647

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

Year ending June 30,

2021		\$ (426,843)
2022		(426,843)
2023		(424,676)
2024		(419,370)
2025		(169,730)
Thereafter		(152,757)
Total		\$ (2,020,218)

Payable to the OPEB Plan

At June 30, 2020 and 2019, the Water System reported a payable of \$94,731, and \$93,780 for the outstanding amount of contributions to the Plan required for the year ended June 30, 2019 and 2018, respectively.

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

11. Commitments and Contingencies

Litigation

The Authority is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Water System's financial position, changes in net position, or liquidity. Additionally, Title 30, Section 111(a) of the Virgin Islands Code exempts the Authority's Water System property from lien, levy, and sale as the result of any judgment against the Authority, except by bondholders.

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. Also see Note 13.

Insurance Program

The Water System is exposed to various risks of loss related to damage and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Authority mitigates this risk of loss by purchasing commercial insurance, including general liability, excess liability, workers' compensation, property, and employee health, life, and accident.

The Authority's commercial insurance policies cover catastrophic exposures, as well as those risks required to be insured by law or contract. It is the policy of the Authority to retain a significant portion of certain losses related primarily to physical loss to property, business interruption resulting from such loss, and comprehensive general and vehicle liability. There were no reductions in coverage from the prior year, and the amount of settlements has not exceeded insurance coverage for each of the past three years.

Construction Contracts

During the normal course of business, the Authority contracts with various construction companies to help the Authority maintain, replace, and expand its utility plant. These construction costs are expected to be paid for using proceeds from government grants, contributions from developers, and cash from operations.

Agreements with Seven Seas Corporation

The Authority has signed two agreements with Seven Seas Corporation to build, operate, and maintain two reverse osmosis facilities, one on St. Croix and one on St. Thomas, and sell the water from the facilities to the Water System. The agreements both have 20-year terms expiring through 2032. The amounts paid by the Water System to Seven Seas Corporation under the agreements were \$9.9 million and \$10.0 million for 2020 and 2019, respectively.

Water System of the Virgin Islands Water and Power Authority

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Operating Leases

During the normal course of business, the Authority leases various property and equipment to support Water System operations. The leases are generally short term in nature and lease payments are not significant to the overall operations of the Water System.

Global Pandemic

In March 2020, the Governor of the U.S. Virgin Islands declared a state of emergency due to the coronavirus pandemic known as COVID-19. The state of emergency was approved by the President of the United States under the provisions of the Stafford Act and the National Emergencies Act. A federally approved state of emergency activates federal assistance to states in the form of financial, logistical, and technical assistance. The state of emergency also activates other emergency response protocols and systems to protect citizenry such as stay-at-home orders, travel restrictions, and social distancing requirements.

As the emergency measures are eased, management continues to actively monitor the evolving impact of the COVID-19 outbreak on its financial condition, including the duration of the closings, speed of recovery, and impact on demand. As of the date of issuance of this report, the Water System's operations continued, and the Authority believes that it will have the necessary resources to fund essential services and make timely debt service payments.

Also, in March 2020, the President of the United States signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, appropriated funds for the Coronavirus Relief Fund to be used to make payments for specified uses to state, territorial, local, and tribal governments. Also see Note 13.

12. Regulatory Matters

In April 1998, the Governor signed into law Virgin Islands Act No. 6224, which provides that the Authority, as well as certain other instrumentalities of the Government, make a payment to the Government in lieu of taxes equal to 10% of net revenues or \$500,000, whichever is greater. The term "net revenues" is not defined in the legislation. Subject to further clarification from the Legislature, the Authority has interpreted net revenues as net income calculated in accordance with accounting principles generally accepted in the United States of America. For both of the years ended June 30, 2020 and 2019, the Electric System incurred \$500,000 in expenses related to this tax on behalf of the Authority.

13. Subsequent Events

Natural Disasters - Hurricanes Irma and Maria

Through qualification for substantial Federal disaster assistance from FEMA and other Federal agencies, such as the U.S. Department of Housing and Urban Development, the Authority has made significant progress towards restoring its assets which were damaged by Hurricanes Irma and Maria in September 2017.

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

FEMA's Public Assistance Grant Program (PA) provides Federal support to include assistance for debris removal, life-saving emergency protective measures, and the repair, replacement, or restoration of disaster-damaged facilities. As of March 2022, the Authority has been approved for approximately \$1,449.9 million in grant funding for emergency restoration work, and permanent and hazard mitigation projects.

In December 2020, the Authority through the Government of the Virgin Islands, received notice from FEMA of the results of audits related to the PA program awards. As a result, the Authority received a notice of potential debt in the amount of \$97.1 million. In response to the notice, in February 2021, the Authority exercised its option to appeal the notice and provided additional clarification and documentation. Management believes these non-compliance instances, if any, should not materially affect the Authority's financial position.

On September 30, 2021, repayments of the Community Disaster Loans issued by FEMA after the hurricanes were cancelled when Congress passed the Extending Government Funding and Delivering Emergency Assistance Act (P.L. 117-43) and on October 8, 2021, FEMA notified the Authority of such cancellation and closure of the loan program. Also see Note 8.

In addition to incurring significant storm related expenses, recurring operating revenues of the Authority have been reduced. In the interim, the Authority has revised its fiscal years 2021 and 2022 budgets. In a further effort to close potential shortfalls and to serve returning citizens, the Authority continues to work closely with Federal agencies, to maximize its recovery from all available sources. 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.

Economic Relief Legislation

To address issues related to the continuance of the global coronavirus pandemic, in December 2020, "The Consolidated Appropriations (CA) Act" was passed. The CA Act, among other things, provided for an extension of time to spend any CARES Act funds until December 31, 2021, and provided funding for education, healthcare, broadband, and transportation. The Authority has evaluated all programs related to the CA Act and has determined there is no impact to the Water System's operations.

In March 2021, "The American Rescue Plan (ARP) Act of 2021" was signed into law. The ARP Act, among other things, appropriated funds for the Coronavirus Capital Projects Fund and for specified uses for state, territorial, local, and tribal governments. There is no assurance that the Authority will be eligible for these funds or will be able to obtain them. The Authority continues to examine the impact that the ARP Act may have on its operations and to explore initiatives with the Governor and his Administration to derive benefit from the passage of the legislation.

Clean Drinking Water and Infrastructure

In November 2021, "The Infrastructure Investment and Jobs (IIJ) Act" was signed into law. Under the IIJ Act, based on the traditional revolving fund formula, the United States Virgin Islands is expected to receive more than \$37.0 million over five years to improve water infrastructure in the region and ensure that clean, safe drinking water is available in all communities. The Authority continues to examine the impact that the IIJ Act may have on the Water System's operations.

Water System of the Virgin Islands Water and Power Authority

Notes to Financial Statements

Management's Evaluation

Management has evaluated any events or transactions occurring after June 30, 2020, the statement of net position date, through June 30, 2022, 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 Water System's financial statements for the year ended June 30, 2020.

**Required
Supplementary Information**

Water System of the Virgin Islands Water and Power Authority

Schedule of Changes in OPEB Liability and Related Ratios

<i>Measurement year ended June 30,</i>	2019	2018	2017
Total OPEB Liability:			
Service Cost	\$ 2,198,990	\$ 2,104,095	\$ 2,686,270
Interest on the Total OPEB Liability	2,549,043	2,444,471	2,017,603
Difference between Expected and Actual Experience	(1,562,207)	-	-
Assumption Changes	(5,326,834)	-	(10,145,248)
Benefit Payments	(2,068,302)	(1,990,007)	(1,931,335)
Net Change in Total OPEB Liability	(4,209,310)	2,558,559	(7,372,710)
Total OPEB Liability - Beginning*	62,561,236	60,002,677	67,375,387
Total OPEB Liability - Ending (a)	\$ 58,351,926	\$ 62,561,236	\$ 60,002,677
Plan Fiduciary Net Position:			
Employer Contributions (Trust Deposits)	\$ 686,943	\$ 486,370	\$ 4,324,854
Employer Contributions (Benefits Paid Outside the Trust)	1,358,455	1,503,637	1,739,016
OPEB Plan Net Investment Income	278,083	325,836	111,584
Benefit Payments	(2,068,302)	(1,990,007)	(1,931,335)
Net Change in Plan Fiduciary Net Position	255,179	325,836	4,244,119
Plan Fiduciary Net Position - Beginning	4,569,955	4,244,119	-
Plan Fiduciary Net Position - Ending (b)	\$ 4,825,134	\$ 4,569,955	\$ 4,244,119
Net OPEB Liability (Asset) - Ending (a) - (b)	\$ 53,526,792	\$ 57,991,281	\$ 55,758,558
Plan Fiduciary Net Position as a percentage of Total OPEB Liability	8.27%	7.30%	7.07%
Covered Payroll	\$ 30,899,845	\$ 31,157,523	\$ 30,176,778
Net OPEB Liability as a Percentage of Covered Payroll	173.23%	186.12%	184.77%

This schedule is intended to show a 10-year trend for the Authority of which the Water System's share would be 17% of the above. Additional years will be reported as they become available.

** An OPEB trust was established during the measurement period ended June 30, 2017. Consequently, the beginning total OPEB liability was calculated using a discount rate of 2.92% based on municipal bond rates prevailing on June 30, 2016.*

Water System of the Virgin Islands Water and Power Authority

Schedule of Water System's OPEB Contributions

<i>Fiscal Year</i>	2019	2018	2017
Actuarially required contributions	\$ 906,868	\$ 841,030	\$ 1,431,446
Contributions in relation to the actuarially required contributions	347,717	338,301	1,030,858
Contribution deficiency (excess)	\$ 559,151	\$ 502,729	\$ 400,588
Covered payroll	\$ 5,252,974	\$ 5,296,779	\$ 5,130,052
Contributions as a percentage of covered payroll	6.62%	6.39%	20.09%

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. Actuarially required contributions are calculated as of June 30 of the preceding year, which is 24 months prior to the end of the fiscal year in which contributions are made and reported.

Water System of the Virgin Islands Water and Power Authority

Schedule of the Water System's Share of the Net Pension Liability

Fiscal Year	2020	2019	2018	2017	2016	2015
Water System's proportion of the net pension liability	0.9231%	1.0616%	1.1567%	1.2165%	1.2924%	1.4591%
Water System's proportionate share of the net pension liability	\$ 49,059,514	\$ 44,298,575	\$ 50,670,361	\$ 56,283,182	\$ 53,044,578	\$ 45,026,931
Water System's covered payroll	\$ 4,297,164	\$ 4,639,357	\$ 4,347,492	\$ 3,665,263	\$ 3,275,222	\$ 4,010,648
Water System's proportionate share of the net pension liability as a percentage of its covered payroll	1142%	955%	1166%	1536%	1620%	1123%
Plan fiduciary net position as a percentage of the total pension liability	11.30%	15.56%	16.18%	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).

Water System of the Virgin Islands Water and Power Authority

Schedule of the Water System's Pension Contributions

Fiscal Year	2020	2019	2018	2017	2016	2015
Actuarially required contributions	\$ 3,811,108	\$ 3,441,816	\$ 3,651,478	\$ 3,587,192	\$ 3,030,406	\$ 2,919,510
Contributions in relation to the actuarially required contributions	533,015	575,327	753,841	735,017	597,521	793,748
Contribution deficiency (excess)	\$ 3,278,093	\$ 2,866,489	\$ 2,897,637	\$ 2,852,175	\$ 2,432,885	\$ 2,125,762
Covered payroll	\$ 3,692,279	\$ 4,297,164	\$ 4,639,357	\$ 4,347,492	\$ 3,665,263	\$ 3,725,222
Contributions as a percentage of covered payroll	14.44%	13.39%	16.25%	16.91%	16.30%	21.31%

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.

Supplementary Schedule

Water System of the Virgin Islands Water and Power Authority

Five-Year Comparative Summary of Operations (Unaudited)

Years ended June 30,	2020	2019	2018	2017	2016
Operating revenues:					
Water sales to customers	\$ 12,648,563	\$ 13,447,264	\$ 10,843,576	\$ 12,122,915	\$ 12,651,258
Water sales to Virgin Islands Government	9,965,757	9,224,851	8,386,394	9,729,815	8,223,966
Fuel escalator revenues	10,355,858	7,767,873	5,745,500	8,971,868	9,759,747
Line loss surcharge	663,789	675,990	692,663	783,003	723,183
Bad debt expense	(1,168,018)	(2,991,903)	(899,632)	(400,928)	(80,420)
Total operating revenues	32,465,949	28,124,075	24,768,501	31,206,673	31,277,734
Operating and production expenses:					
Production cost of water distributed	13,881,940	14,154,179	12,045,668	11,136,598	11,835,397
Operations and maintenance	7,430,776	6,386,649	6,333,334	7,304,716	8,886,167
Customer service	936,088	1,013,886	776,402	976,983	925,581
Administrative and general	5,104,617	7,289,095	9,893,655	9,735,687	5,728,301
Depreciation, net of amortization	1,337,744	1,228,854	1,211,667	1,198,779	3,144,304
Total operating and production expenses	28,691,165	30,072,663	30,260,726	30,352,763	30,519,750
Operating income (loss)	3,774,784	(1,948,588)	(5,492,225)	853,910	757,984
Nonoperating revenues (expenses):					
Loss on retirement of capital assets	-	-	-	-	(3,147,815)
Interest expense	(562,756)	(574,755)	(251,816)	(323,221)	(506,873)
Interest income	4,183	2,848	15,744	33,029	12,922
Total nonoperating expenses	(558,573)	(571,907)	(236,072)	(290,192)	(3,641,766)
Change in net position, before capital grants and contributions and special item	3,216,211	(2,520,495)	(5,728,297)	563,718	(2,883,782)
Capital grants and contributions	5,682,880	3,566,660	1,302,659	2,826,369	1,498,989
Impairment loss on capital assets	-	-	(1,273,354)	-	-
Increase (decrease) in net position	\$ 8,899,091	\$ 1,046,165	\$ (5,698,992)	\$ 3,390,087	\$ (1,384,793)
Water revenues:					
Residential	\$ 4,779,318	\$ 5,688,382	\$ 4,453,075	\$ 4,713,748	\$ 4,548,624
Commercial	6,531,975	6,298,907	5,497,031	6,583,707	7,072,209
Virgin Islands Government	5,270,271	3,724,718	3,592,244	3,872,803	2,829,962
Other governments	4,695,485	6,394,621	4,794,150	5,857,011	5,394,004
Standpipe	673,730	789,008	424,202	378,936	547,669
Fuel escalator revenues	10,355,858	6,873,385	5,745,500	8,971,868	9,759,747
Line loss surcharge	663,789	675,990	692,663	783,003	723,183
Other	663,541	670,967	469,268	446,525	482,757
Total	\$ 33,633,967	\$ 31,115,978	\$ 25,668,133	\$ 31,607,601	\$ 31,358,155
Water sales (gallons) (in thousands):					
Residential	236,394	236,967	261,665	209,727	240,443
Commercial	173,640	336,787	181,238	278,953	286,867
Virgin Islands Government	195,971	188,958	149,547	184,051	133,699
Other governments	451,473	476,614	322,926	431,611	369,202
Standpipe	35,271	43,935	20,965	20,759	29,992
Total	1,092,749	1,283,261	936,341	1,125,101	1,060,203
Number of customers at year-end	16,473	12,729	6,927	12,723	12,441