




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

**Financial Statements and  
Supplemental Schedule  
Years Ended June 30, 2015 and 2014**



The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



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

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**Financial Statements and  
Supplemental Schedule  
Years Ended June 30, 2015 and 2014**

# Electric System of the Virgin Islands Water and Power Authority

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## **Independent Auditor's Report**

**The Virgin Islands Water and Power Authority Governing Board**

### **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, 2015 and 2014, 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.

#### ***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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### **Opinion**

In our opinion, the financial statements referred to above 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, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Electric System and do not purport to, and do not present fairly the financial position of the Authority, as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Also as discussed in Note 1, in 2015, the Electric System adopted Governmental Accounting Standards Board Statement (GASB) 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*. Our opinion is not modified with respect to this matter.

As discussed in Note 14 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. Management's plans regarding those matters are also described in Note 14. 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 Supplemental Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of funding progress—other post-employment benefits obligation, schedule of the system's share of the net pension liability, and schedule of system contributions on pages 6 through 13 and 45 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



***Other Information - Supplemental Schedule***

Our audit was conducted for the purpose of forming opinions 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 17, 2016, on our consideration of the Electric System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Electric System's internal control over financial reporting and compliance.

*BDO USA, LLP*

June 17, 2016

**Management's  
Discussion and Analysis**

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# Electric System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

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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 Authority's Electric System financial statements this discussion and analysis of the financial activities of the Authority's Electric System for the years ended June 30, 2015 and 2014. We encourage readers to consider the information presented here in conjunction with the financial statements that follow this section.

The Electric System 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 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 a few commercial entities, however, that produce electricity for their own use.

The Authority provides electric service to more than 55,000 customers (as of June 30, 2015). The Authority also provides water service to more than 12,000 customers (as of June 30, 2015). The Authority's Electric System rates are under the jurisdiction of the Virgin Islands Public Services Commission (PSC), 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 additions. The Authority does not use rate base or rate of return principles for setting rates.

### Financial Highlights - 2015

- Net position decreased by \$27.9 million as a result of fiscal year 2015 operations.
- Current assets increased from \$91 million to \$94.9 million. This was due primarily as a result of a decrease in accounts receivable of \$1.8 million and an increase in alternative energy research assets of \$6 million offset by a decrease in grants receivable of \$576 thousand and an increase in due from water for general obligation notes of \$162 thousand.
- Noncurrent assets decreased by \$21.8 million, due primarily to decrease in fuel costs recoverable of \$27 million, an increase in investments of \$243 thousand, offset by increases in cash and cash equivalents \$769 thousand.
- Net accounts receivable from the Virgin Islands Government increased by \$4.2 million. The Authority has reported a portion of the Virgin Islands Government net accounts receivable as noncurrent because such portion is not expected to be collected in 2016.
- The fuel costs recoverable balance decreased by \$27 million to \$2 million in 2015 as the Levelized Energy Adjustment Clause (LEAC) permitted by the PSC did allow the Authority to recover a significant amount of its cost of fuel during the year.
- During 2015, total operating revenues were \$270 million compared to \$321 million in 2014. The decrease is mainly due to decreases in fuel escalator revenues of \$52 million and base revenues of \$5 million offset by \$8 million in other revenues.

# Electric System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

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- Operating expenses, excluding depreciation, amortization, and fuel expense were \$108.5 million for the year ended June 30, 2015; an increase of \$33.9 million compared to the year ended June 30, 2014. The increase was primarily due to an increase in administrative and general expenses of \$26.5 million, inclusive of required pension accounting standards implementation, and operations and maintenance increase of \$8.5 million.
- Capital grants and contributions received by the Electric System were \$7.3 million in fiscal year 2015 compared to \$11.5 million in fiscal year 2014. Of this amount, \$5.6 million was fuel tax, \$445 thousand for the Pad Mounted Transformer Project, \$203 thousand for the Distribution Automation/Smart Grid project and \$376 thousand for the Frenchman Bay Road Utility relocation project.

### Financial Highlights - 2014

- Net position decreased by \$2.9 million, or 6%, as a result of fiscal year 2014 operations.
- Current assets increased by \$3.9 million to \$91.2 million. This was due primarily as a result of increases in accounts receivable of \$3.4 million and alternative energy research assets of \$2.1 million offset by decreases in grants receivable of \$3.0 million, due from water for general obligation notes of \$1.1 million.
- Noncurrent assets decreased by \$26.8 million, due primarily to decrease in fuel costs recoverable of \$22.3 million, investments of \$4.1 million, offset by increases in cash and cash equivalents \$4.5 million and due from unrestricted assets of \$4.0 million.
- Net accounts receivable from the Virgin Islands Government increased by \$12.5 million. The Authority has reported a portion of the Virgin Islands Government net accounts receivable as noncurrent because such portion is not expected to be collected in 2014.
- The fuel costs recoverable balance decreased by \$22.3 million to \$29.5 million in 2014 as the Levelized Energy Adjustment Clause (LEAC) permitted by the PSC did allow the Authority to recover a significant amount of its cost of fuel during the year.
- During 2014, total operating revenues were \$321.2 million compared to \$339.0 million in 2014. The decrease of \$17.8 million is mainly due to decreases in fuel escalator revenues of \$16.5 million and base revenues of \$12.2 million offset by \$10.9 million in other revenues.
- Operating expenses, excluding depreciation, amortization, and fuel expense were \$74.7 million for the year ended June 30, 2014; an increase of \$496 thousand compared to the year ended June 30, 2013. The increase was primarily due to a decrease in production expenses of \$3.1 million offset by increases in administrative and general expenses of \$3.5 million.
- Capital grants and contributions received by the Electric System were \$11.5 million in fiscal year 2014 compared to \$4.9 million in fiscal year 2013. Of this amount, \$267 thousand was used on the street light project, \$377 thousand for the Frenchman Bay Road Utility relocation, and \$485, thousand for the Rothschild Francis Market Square project.

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

## **Management's Discussion and Analysis**

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### **Overview of the Financial Statements**

#### ***Balance Sheet***

This statement includes all of the Electric System's assets and liabilities 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 Authority's 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 two years 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.

#### ***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 the cash come from?" "What was the 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 - 44 of this report.

#### ***Financial Analysis of the Authority's Electric System***

One of the most important questions asked about the Authority's Electric System finances is as follows: "Is the Electric System better off or worse off as a result of the year's activities?" The Balance Sheets 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 Authority's Electric System 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 balance sheet captions.

**Table 1**  
**Condensed Balance Sheets**

<i>As of June 30,</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Current assets	\$ 94,924,511	\$ 91,273,348	\$ 87,215,766
Restricted assets	58,635,060	57,622,056	56,893,894
Other non-current assets	28,828,665	50,721,877	69,135,794
Net capital assets	330,357,872	312,353,158	290,706,972
Deferred outflow of resources	26,126,789	-	-
<b>Total assets and deferred outflows</b>	<b>\$ 538,872,898</b>	<b>\$ 511,970,439</b>	<b>\$ 503,952,426</b>
Long-term debt	\$ 233,246,386	\$ 269,980,262	\$ 275,047,423
Other liabilities	452,285,378	196,794,782	180,822,228
<b>Total liabilities</b>	<b>685,531,764</b>	<b>466,775,044</b>	<b>455,869,651</b>
Net Investment in capital assets	195,825,684	171,951,529	138,306,432
Restricted	49,238,255	47,544,187	42,349,157
Unrestricted	(391,722,806)	(174,300,321)	(132,572,814)
<b>Total net position (see note 1)</b>	<b>(146,658,867)</b>	<b>45,195,395</b>	<b>48,082,775</b>
<b>Total liabilities and net position</b>	<b>\$ 538,872,898</b>	<b>\$ 511,970,439</b>	<b>\$ 503,952,426</b>

At June 30, 2015, the Electric System had total assets and deferred outflows of resources of \$538.9 million of which \$330.4 million or 61% represents net capital assets. Borrowed funds have been instrumental in acquiring these assets, with \$233 million in long-term bonds and lines of credit balances outstanding at June 30, 2015.

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

# Electric System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

**Table 2**  
**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

<i>Years ended June 30,</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Base revenues	\$ 56,760,880	\$ 62,148,162	\$ 74,221,671
Fuel escalator revenues	187,655,232	241,980,508	258,517,080
Investment earnings	26,221	90,676	119,391
Payment in lieu of taxes	428,394	435,562	462,412
Other income	25,465,318	16,651,310	5,799,698
<b>Total revenues</b>	<b>270,336,045</b>	<b>321,306,218</b>	<b>339,120,252</b>
Fuel	172,209,703	231,479,318	240,874,507
Operating expenses, excluding fuel, depreciation, and amortization, and payment in lieu of taxes	108,645,443	74,660,513	74,184,155
Payment in lieu of taxes	500,000	500,000	500,000
Allowance for funds used during construction	(562,849)	(352,219)	(308,567)
Interest expense	14,025,824	13,520,972	13,888,691
Depreciation and amortization	10,770,895	15,906,038	23,319,980
<b>Total expenses</b>	<b>305,589,016</b>	<b>335,714,622</b>	<b>352,929,188</b>
Loss before capital grants and contributions	(35,252,971)	(14,408,404)	(15,808,936)
Capital grants and contributions	7,306,087	11,521,024	4,944,004
<b>Decrease in net position</b>	<b>(27,946,884)</b>	<b>(2,887,380)</b>	<b>(8,394,510)</b>
<b>Net position, beginning of year</b>	<b>(118,711,983)*</b>	<b>48,082,775</b>	<b>56,477,285</b>
<b>Net position, end of year</b>	<b>\$(146,658,867)</b>	<b>\$ 45,195,395</b>	<b>\$ 48,082,775</b>

\*As restated; see Note 1.

The Authority's Electric System net position decreased by \$27.9 million during the 2015 fiscal year. Key elements of the decrease were as follows:

- Total operating revenues decreased by \$50.9 million, primarily due to decrease of \$52.1 million in fuel escalator revenues, \$5.4 million in base revenues and offset by an increase of \$8.8 million in other income.
- Total operating expenses decreased by \$30.1 million due to decreases of \$50.7 million in total production expenses, \$5 million in depreciation and amortization expense and an increase \$26 million in administrative expenses.
- Total non-operating expenses decreased by \$358 thousand, capital grants and contributions decreased to \$7.3 million in 2015 from \$11.5 million in 2014.

# Electric System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

The Authority's Electric System net position decreased by \$2.8 million during the 2014 fiscal year. Key elements of the decrease were as follows:

- Total operating revenues decreased by \$17.8 million, primarily due to decrease of \$16.5 million in fuel escalator revenues, \$12.3 million in base revenues and partially offset by an increase of \$10.9 million in other income.
- Total operating expenses decreased by \$16.3 million due to decreases of \$12.8 million in total production expenses and \$7.4 million in depreciation and amortization expense offset by an increase of \$3.5 million in administrative and general expenses.
- Total non-operating expenses decreased by \$382 thousand, capital grants and contributions increased to \$11.5 million in 2014 from \$5.0 million in 2013.

### Capital Asset and Debt Administration

#### Capital Assets

The Authority's investment in Electric System capital assets as of June 30, 2015, amounted to \$330 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.

Table 3 provides detail of capital assets, net of accumulated depreciation and property-related gains, at June 30, 2015, 2014, and 2013.

**Table 3**  
**Capital Assets**  
**(Net of Accumulated Depreciation and Property-Related Gains)**

<i>June 30,</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Land	\$ 4,654,206	\$ 4,650,956	\$ 3,233,033
Utility plant in service	260,438,957	248,533,247	253,658,354
Buildings and fixed equipment	12,027,454	9,913,780	10,464,744
Furniture, fixtures, and equipment	4,962,352	4,628,441	3,983,970
Construction in progress	48,274,904	44,626,734	19,366,871
<b>Net utility plant</b>	<b>\$ 330,357,873</b>	<b>\$ 312,353,158</b>	<b>\$ 290,706,972</b>

The Authority's fiscal 2016 capital budget anticipates investing \$123.7 million in capital projects. The major projects completed in fiscal year 2015 were St. Croix Gregory Willocks Substation \$13.6 million, St. Croix Unit #17 Overhaul for \$3.4 million and St. Thomas Frenchman's Bay Primary Relocation Underground for \$1.1 million.

Additional information on capital assets can be found in Note 5.

# Electric System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

### Long-Term Debt

In May 2012, the Authority issued \$69.1 million in 2012A Electric System Revenue Refunding Bonds \$17,390,000 2012B Electric System Subordinated Revenue Bonds, \$19,690,000 and 2012C Electric System Subordinated Revenue Bonds \$32,065,000. 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 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 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.

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. However, the Government of the United States Virgin Islands has agreed to guarantee the payments of the principal and interest on the notes pursuant to the terms of the Guaranty Agreement by and between the Government, the Authority, and FirstBank, which was authorized by the Legislature of the United States Virgin Islands Act No. 7028 (Section 7), 27<sup>th</sup> Legislature of the United States Virgin Islands.

At June 30, 2015, the Electric System had total long-term debt outstanding (including current installments) of \$269.9 million, a net decrease of \$13.4 million from the prior year.

Table 4 provides the detail of long-term debt as of June 30, 2015, 2014, and 2013.

**Table 4**  
**Long-Term Debt**

<i>June 30,</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Revenue bonds	\$ 238,190,000	\$ 248,745,000	\$ 258,890,000
Lines of credit	25,128,440	25,128,440	16,875,000
General obligation notes	3,256,067	5,873,093	8,348,420
<b>Total</b>	<b>266,574,507</b>	<b>279,746,533</b>	<b>284,113,420</b>
Plus unamortized premium	3,311,295	3,531,152	3,751,009
<b>Total</b>	<b>\$ 269,885,802</b>	<b>\$ 283,277,685</b>	<b>\$ 287,864,429</b>

The Authority's ability to incur long-term indebtedness is capped by Virgin Islands statute at \$500 million for the Electric and Water Systems combined. As of June 30, 2015, combined long-term debt amounts to approximately \$282.7 million.

Additional information on long-term debt can be found in Note 8.

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

## **Management's Discussion and Analysis**

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### **Requests for Information**

This discussion and analysis 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, VI 00804.

## Financial Statements

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# Electric System of the Virgin Islands Water and Power Authority

## Balance Sheets

June 30,	2015	2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,944,310	\$ 10,825,788
Accounts receivable:		
Customers and other, net	10,153,431	11,609,355
Virgin Islands Government	24,013,085	24,701,605
Virgin Islands Government, fuel tax receivable	1,915,685	1,251,392
Grants receivable	2,653,137	3,229,451
Unbilled revenues	6,430,286	6,167,266
Alternative energy research asset	9,520,903	3,019,120
Inventories:		
Fuel oil	13,289,288	14,818,592
Materials and supplies	10,821,714	11,101,804
Prepayments and other current assets	5,182,672	4,548,975
<b>Total current assets</b>	<b>94,924,511</b>	<b>91,273,348</b>
Restricted assets:		
Cash and cash equivalents	16,318,508	15,548,764
Investments	36,801,002	36,557,742
Due from unrestricted assets	5,515,550	5,515,550
<b>Total restricted assets</b>	<b>58,635,060</b>	<b>57,622,056</b>
Other non-current assets:		
Virgin Islands Government accounts receivable	16,991,419	12,007,103
Fuel costs recoverable	2,423,516	29,463,532
Due from Water System	9,413,730	9,251,242
<b>Total other noncurrent assets</b>	<b>28,828,665</b>	<b>50,721,877</b>
Capital assets:		
Utility plant in service	644,387,495	619,260,055
Less accumulated depreciation	(362,304,526)	(351,533,631)
Net utility plant in service	282,082,969	267,726,424
Construction in progress	48,274,904	44,626,734
<b>Net capital assets</b>	<b>330,357,873</b>	<b>312,353,158</b>
Deferred outflows of resources		
Derivative instruments	71,777	-
Pension related outflows	26,055,012	-
<b>Total assets and deferred outflows of resources</b>	<b>\$ 538,872,898</b>	<b>\$ 511,970,439</b>

Continued on next page.

# Electric System of the Virgin Islands Water and Power Authority

## Balance Sheets (continued)

June 30,	2015	2014
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 105,448,330	\$ 96,755,878
Customer deposits	25,924,796	25,192,125
Due to Federal Emergency Management Agency	4,142,493	4,142,493
Derivative instruments	71,777	-
Lines of credit	22,875,000	-
Current installment on general obligation notes	2,754,416	2,742,423
<b>Total current liabilities</b>	<b>161,216,812</b>	<b>128,832,919</b>
Liabilities payable from restricted assets:		
Current installments on long-term debt	11,010,000	10,555,000
Accrued interest payable	6,190,996	6,416,561
Insurance surcharge reserve	8,700,259	8,700,259
Due to restricted assets	5,515,550	5,515,550
<b>Total liabilities payable from restricted assets</b>	<b>31,416,805</b>	<b>31,187,370</b>
Long-term debt:		
Revenue bonds, excluding current installments	227,180,000	238,190,000
Unamortized bond premiums	3,311,295	3,531,152
Lines of credit	2,253,440	25,128,440
General obligation notes	501,651	3,130,670
<b>Total long-term debt</b>	<b>233,246,386</b>	<b>269,980,262</b>
Other long-term liabilities:		
Net pension liability	216,472,978	-
Accrued OPEB liability	43,178,783	36,774,493
<b>Total other long-term liabilities</b>	<b>259,651,761</b>	<b>36,774,493</b>
<b>Total liabilities</b>	<b>685,531,765</b>	<b>466,775,044</b>
<b>Net Position:</b>		
Net investment in capital assets	195,825,684	171,951,529
Restricted	49,238,255	47,544,187
Unrestricted (deficit)	(391,722,806)	(174,300,321)
<b>Total net position</b>	<b>(146,658,867)</b>	<b>45,195,395</b>
<b>Total liabilities and net position</b>	<b>\$ 538,872,898</b>	<b>\$ 511,970,439</b>

See accompanying notes.

# 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>	2015	2014
Operating revenues:		
Electricity sales to customers	\$ 43,375,725	\$ 48,818,266
Electricity sales to Virgin Islands Government	13,863,086	15,316,764
Fuel escalator revenues	175,052,995	227,236,715
LEAC revenue - RFM	12,602,237	14,743,793
OPEB surcharge	5,706,057	3,064,091
Maintenance surcharge	15,241,488	8,802,335
Payment in lieu of taxes	428,394	435,562
Line loss surcharge	1,372,130	1,379,693
Other operating revenues	3,145,643	3,405,191
Bad debts recovery	(477,931)	(1,986,868)
Total operating revenues	270,309,824	321,215,542
Operating expenses:		
Production:		
Fuel	172,209,703	231,479,318
Operations and maintenance	34,656,666	26,121,817
Total production expenses	206,866,369	257,601,135
Distribution	10,060,768	10,546,466
Customer service	5,996,523	6,597,527
Administrative and general	57,931,486	31,394,703
Payment in lieu of taxes	500,000	500,000
Depreciation and amortization	10,770,895	15,906,038
Total operating expenses	292,126,041	322,545,869
Operating loss	(21,816,217)	(1,330,327)
Nonoperating income (expense):		
Interest expense	(14,025,824)	(13,520,972)
Investment earnings	26,221	90,676
Allowance for funds used during construction	562,849	352,219
Total nonoperating expenses	(13,436,754)	(13,078,077)
Capital grants and contributions	7,306,087	11,521,024
Decrease in net position	(27,946,884)	(2,887,380)
Net position, beginning of year, as previously reported	45,195,395	48,082,775
Change in accounting principle (see Note 1)	(163,907,378)	-
Net position, beginning of year, as restated	(118,711,983)	48,082,775
Net position, end of year	\$ (146,658,867)	\$ 45,195,395

See accompanying notes.

# Electric System of the Virgin Islands Water and Power Authority

## Statements of Cash Flows

<i>Years ended June 30,</i>	2015	2014
<b>Operating activities:</b>		
Receipts from customers	\$ 288,636,387	\$ 339,052,393
Payments to suppliers	(210,726,688)	(261,521,330)
Payments to employees	(28,254,452)	(31,586,458)
Net cash provided by operating activities	49,655,247	45,944,605
<b>Capital and related financing activities:</b>		
Principal payments on long-term debt	(10,555,000) ✓	(10,145,000) ✓
Interest paid on long-term debt	(12,047,322) ✓	(12,516,158) ✓
Interest paid on customer deposits/other	(1,132,545) ✓	(1,082,182) ✓
Acquisition and construction of capital assets	(28,775,610) ✓	(37,552,223)
Capital contributions received	7,306,087	11,521,024 ✓
Net cash used in capital and related financial activities	(45,204,390)	(49,774,539)
<b>Non-capital financing activities:</b>		
Principal payments on general obligation notes	(2,617,026)	(2,475,227)
Draws on lines of credit	-	8,253,440
Interest paid on line of credit	(1,291,378) ✓	(347,830)
Net cash (used in) provided by non-capital financing activities	(3,908,404)	5,430,383
<b>Investing activities:</b>		
Interest received	589,070	442,893
Purchases, sales, and maturities of investments, net	(243,257)	4,132,790
Net cash provided by investing activities	345,813	4,575,683
Net change in cash and cash equivalents	888,266	6,176,132
Cash and cash equivalents, beginning of year	26,374,552	20,198,420
Cash and cash equivalents, end of year	\$ 27,262,818	\$ 26,374,552

*Continued on next page.*

# Electric System of the Virgin Islands Water and Power Authority

## Statements of Cash Flows (continued)

<i>Years ended June 30,</i>	2015	2014
<b>Cash and cash equivalents</b>		
Unrestricted	\$ 10,944,310	\$ 10,825,788
Restricted	16,318,508	15,548,764
	<b>\$ 27,262,818</b>	<b>\$ 26,374,552</b>
<b>Reconciliation of operating loss to net cash provided by operating activities</b>		
Operating loss	\$ (21,816,217)	\$ (1,330,327)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation and ammortization	10,770,895 ✓	15,906,038
Net pension liability	216,472,978	-
Deferred outflow of resources	(26,055,012)	-
Change in accounting principle	(163,907,378)	-
Accrued OPEB liability	6,404,290 ✓	6,500,610
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,190,874) ✓	(6,807,435)
Alternative energy research asset	(6,501,783) ✓	(2,194,248)
Inventories	1,809,394 ✓	(21,342)
Prepayments and other current assets	(633,697) ✓	(896,166)
Due from Water System	(162,488) ✓	3,728,708
Fuel costs recoverable	27,040,016 ✓	22,260,696
Accounts payable and accrued liabilities	8,692,452 ✓	7,577,834
Due to FEMA	-	(423,102)
Customer deposits	732,671 ✓	1,643,339
<b>Net cash provided by operating activities</b>	<b>\$ 49,655,247</b>	<b>\$ 45,944,605</b>
	<i>See accompanying notes.</i>	

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

## **Notes to Financial Statements**

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### **1. Organization and Summary of Significant Accounting Policies and Practices**

#### ***Organization and Operation***

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, and a water production and distribution 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 for customers. The accompanying financial statements include only the financial activities of the Electric System major fund.

#### ***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. The Authority has adopted all applicable GASB statements through No. 71.

In accordance with the Electric System Revenue Bond Resolution (Bond Resolution), rates are designed to cover debt service 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 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 subject to the provisions of GASB No. 62, 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. Regulatory assets generally represent incurred costs that have been capitalized because such costs are probable of future recovery in customer rates and for the Authority, these include fuel costs recoverable and alternative energy research costs.

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

## **Notes to Financial Statements**

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Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred items that will be credited to customers in future periods and for the Authority include, unamortized property-related gains, the insurance surcharge reserve, credits for excess PILOT (Payments in Lieu of Taxes) collections, and fuel rate revenue refundable. At June 30, 2015 and 2014, the Electric System had \$11.1 million and \$32.4 million of regulatory assets, respectively, 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 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 3<sup>rd</sup> 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 No. 62, but will continue to evaluate significant changes in the regulatory and competitive environment to assess the ability to continue to apply GASB No. 62. If the Authority no longer applied GASB 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.

### ***Investments***

Investments are reported at fair value in the accompanying balance sheets. 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.

### ***Inventories***

Fuel oil and 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.

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

## **Notes to Financial Statements**

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### ***Due from Water System***

As of June 30, 2015 and 2014, the Electric System had a receivable due from the Water System in the amount of \$9.4 million and \$9.3 million, respectively, as a result of an intersystem transfer of cash to pay for fuel costs incurred and other allocated operating, maintenance, and administrative expenses. This intersystem balance is noninterest-bearing and has no set repayment date. The Authority has classified \$9.4 million and \$9.3 million as of June 30, 2015 and 2014, respectively, as noncurrent because it did not expect to collect such amounts within 12 months of the respective 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. 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 removal costs less any 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 1.7% and 2.4% of average depreciable property for the years ended June 30, 2015 and 2014, 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 better reflect the estimated periods during which these assets will remain in service. The effect of this change in estimate was to adjust 2014 depreciation expense by \$8.9 million less than what would have been charged had the previous lives been utilized.

### ***Allowance for Funds Used During Construction***

An allowance for funds used during construction (AFUDC) of approximately \$563,000 and \$352,000 for the years ended June 30, 2015 and 2014, respectively, is included in construction in progress. These amounts are computed by applying the weighted-average effective-interest rate on the funds borrowed to finance specific projects to the monthly balance of those projects under construction. In addition, interest incurred on restricted tax-exempt borrowings is reduced by interest earned on temporary investments purchased with the borrowed funds. The stated AFUDC rate was 5% for the years ended June 30, 2015 and 2014.

### ***Deferred Outflows of Resources***

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

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

## **Notes to Financial Statements**

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### ***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 accrue interest at 4.75% annually.

### ***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 Government Employees' Retirement System (GERS) for retirement service credit.

### ***Net Pension Liability***

For purposes of measuring the net pension liability, deferred outflows 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 the Government of the Virgin Islands Employees' Retirement System (GERS). Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Also see Note 7.

### ***Net Position***

Net position represents the difference between assets and liabilities. 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.

### ***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 three 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. 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 rate adjustments 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. As of June 30, 2015, the amount of fuel costs recoverable is estimated to not be recovered in 2016 and therefore classified as long-term.

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

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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 goods 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 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 Authority also accepts 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 certain capital improvements. Also see Note 4.

For the years ended June 30, 2015 and 2014, the Electric System recognized as capital contributions \$629,000 and \$540,000 respectively, from the U.S. Government and \$5.5 million and \$8.6 million respectively from the Virgin Islands Government. Additionally, the Electric System recognized capital contributions of \$1.17 million and \$2.38 million from customers in 2015 and 2014, respectively.

### ***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, 2015 and 2014, amounted to \$5.4 million and \$5.5 million, respectively. The systems no longer shares dual-purpose plants in the production of electricity and water. Boilers are no longer used to supply steam to the desalinization units that were used in water production, as reverse osmosis technology is used for all water production. 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 year ended June 30, 2014, amounted \$906,000. There were no such costs allocated for the year ended June 30, 2015.

### ***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.

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

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### *Use of Estimates*

Management of the Authority has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

### *New Accounting Pronouncements*

In 2015, the Authority implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. These statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions.

For defined benefit pensions provided by employers, these statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. While restatement of all prior periods was not practical because information regarding the historical proportionate share of actuarial information to the Water System was not available, the impact of implementing the statements is shown as a change in the beginning net position in fiscal 2015.

The adjustment decreasing beginning net position by (\$163,907,378) is comprised of the net pension liability at July 1, 2014, of (\$166,597,241) plus deferred outflows or resources of \$2,689,863 for contributions made subsequent to the measurement date of September 30, 2013 through June 30, 2014.

## **2. Deposits and Investments**

In accordance with its policies and 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. At June 30, 2015, the fair value of the Electric System's deposits and investments, excluding accrued interest, are as follows:

	Investment Maturities (in years)				
	Fair Value	Less than 1	1 - 5	6 - 10	10 +
U.S. Governmental agency securities	\$ 36,801,002	\$ 36,801,002	\$ -	\$ -	\$ -
Certificates of deposit	5,164,401	5,164,401	-	-	-
Cash deposits	22,098,416	22,098,416	-	-	-
Total	\$ 64,063,819	\$ 64,063,819	\$ -	\$ -	\$ -

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

At June 30, 2014, the fair value of the Electric System's deposits and investments, excluding accrued interest, are as follows:

	Fair Value	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	10 +
U.S. Governmental agency securities	\$ 36,557,742	\$ 31,869,742	\$ 4,688,000	\$ -	\$ -
Certificates of deposit	5,059,779	5,059,779	-	-	-
Cash deposits	21,314,773	21,314,773	-	-	-
Total	\$ 62,932,294	\$ 58,244,294	\$ 4,688,000	\$ -	\$ -

**Interest Rate Risk:** 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, (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 Risk and Concentration of Credit Risk:** As of June 30, 2015, 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, 2015, 57% of the Electric System's cash and investments are in U.S. Governmental agency securities, 8% are invested in certificate of deposits, and 35% are in cash deposits. As of June 30, 2014, 58% of the Electric System's investments are in United States government agency securities, 34% are invested in certificate of deposits, and 8% are in cash deposits.

**Custodial risk:** The Authority does not have a custodial risk policy. This is the risk that the Authority will not be able to recover the value of its investments that are in the possession of an outside party. At June 30, 2015, 100% of Electric System's investments were held with the Bank of New York Mellon, as Trustee for the Authority.

**Financial Risk:** The Authority places both Water System and Electric System cash and cash equivalents with some of the same high credit quality financial institutions that are federally insured. As such, in the event of a loss, federal insurance recoveries would have to be allocated among the two systems. The potential amount held in excess of the FDIC limits was \$12,480,774 at June 30, 2015. 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

### 3. Accounts Receivable

Accounts receivable, current and non-current, at June 30, 2015 and 2014, consists of the following, including other receivables and Virgin Islands Government accounts receivable:

	2015	2014
Customers	\$ 22,421,706	\$ 23,219,013
Other	887,006	1,797,099
Customers and other accounts receivable	23,308,712	25,016,112
Less allowance for doubtful accounts	(13,155,281)	(13,406,757)
Customers and other accounts receivable, net	10,153,431	11,609,355
Virgin Islands Government	41,004,504	36,708,708
Virgin Islands Government Fuel Tax receivable	1,915,685	1,251,392
Grants	2,653,137	3,229,451
Unbilled revenues	6,430,286	6,167,266
Accounts receivable, net	\$ 62,157,043	\$ 58,966,172

Management of the Authority has been working with the Government and its various instrumentalities in an attempt to obtain payment on outstanding receivable balances and to increase 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, 2015 and 2014, the Authority has classified Government accounts receivable of \$ 16.9 million and \$12.0 million, respectively, as noncurrent because these balances are expected to take longer than one year from the balance sheet dates to be paid by the various government agencies.

### 4. Restricted Assets

The Electric System Revenue Bond Resolution, as amended (the Bond Resolution), 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, 2015.

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

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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; therefore, to fund bona fide hazard mitigation programs. The Insurance Fund is held by the Authority.

Demand Side Management Account - 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.

Load Research Program Account - Funds are used to cover costs of performing customer load requirements in order to establish effective procedures for rate setting. The Load Research Program Fund is held by the Authority.

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.

OPEB Fund - Amounts in the fund are used to cover the cost of OPEB.

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 United States 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.

The Public Services Commission (PSC) authorized the Authority to borrow from the Self-Insurance Reserve Fund to augment its fuel and transmission and distribution inventory. The Authority expended \$399,000 during the year. As of June 30, 2015, the Authority has not repaid any of the amounts borrowed. The unpaid balance of \$5.5 million is reflected as Due from Unrestricted Assets on the balance sheets.

Restricted assets consist of the following at June 30:

	2015	2014
Construction Fund	\$ 1,674,766	\$ 3,460,730
Debt Service Fund	18,025,350	17,792,739
Debt Service Reserve Fund	18,454,877	18,444,286
Cost of Issuance Fund	320,776	320,717
Self-Insurance Reserve Fund	3,903,693	3,184,708
Fuel Tax Fund	5,799,331	7,354,520
OPEB Fund	4,120,870	930,078
Demand Side Management Fund	255,168	254,658
Load Research Program Fund	364,679	364,070
Due from Unrestricted Assets	5,515,550	5,515,550
HRSB 6B Escrow	200,000	-
	<b>\$ 58,635,060</b>	<b>\$ 57,622,056</b>

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

### 5. Capital Assets

Capital assets activity for the year ended June 30, 2015, was as follows:

Description	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Non-depreciable assets:					
Land and land right	\$ 4,650,956	\$ 3,250	\$ -	\$ -	\$ 4,654,206
Construction in progress	44,626,734	25,534,763	-	(21,886,593)	48,274,904
Depreciable assets:					
Utility plant	614,609,099	3,237,597	-	21,886,593	639,733,289
Total at historical cost	663,886,789	28,775,610	-	-	692,662,399
Less accumulated depreciation	351,533,631	10,770,895	-	-	362,304,526
Total deductions	351,533,631	10,770,895	-	-	362,304,526
Capital assets, net	\$ 312,353,158	\$ 18,004,715	\$ -	\$ -	\$ 330,357,873

Capital assets activity for the year ended June 30, 2014, was as follows:

Description	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Non-depreciable assets:					
Land and land right	\$ 3,233,033	\$ 1,417,923	\$ -	\$ -	\$ 4,650,956
Construction in progress	19,366,871	30,324,195	-	(5,064,332)	44,626,734
Depreciable assets:					
Utility plant	603,734,661	5,810,106	-	5,064,332	614,609,099
Total at historical cost	626,334,565	37,552,224	-	-	663,886,789
Less accumulated depreciation	335,627,593	15,906,038	-	-	351,533,631
Total deductions	335,627,593	15,906,038	-	-	351,533,631
Capital assets, net	\$ 290,706,972	\$ 21,646,186	\$ -	\$ -	\$ 312,353,158

### 6. Line of Credit

At June 30, 2015 the Authority has available bank lines of credit for \$33 million for the Electric System: \$7.1 million available for capital projects and \$15 million available for working capital purposes. Interest on amounts borrowed is payable quarterly at a variable interest rate of prime plus 1%, London Interbank Offered Rate (LIBOR) plus 1.5%, or 1.5% above the interest rate on three-year United States treasury notes.

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

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The Authority has the option to select the variable interest rate to utilize. At both June 30, 2015 and 2014, there was \$25.1 million outstanding under the lines of credit. The lines of credit are being used to fund capital projects and working capital. In 2014, the Authority signed an agreement extending maturity until June 2016. The Banco line of credit with an amount \$2.253 million expires on February 28, 2017.

### 7. Net Pension Liability

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

#### Plan Description and Benefits

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

There are two tiers within the plan:

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

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

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

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

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### Funding and Contribution Policy

Contributions to GERS are established by the Board of Trustees of GERS. The Government's required employer contribution for Tier I and Tier II members through December 31, 2014, was 17.5 % of the member's annual salary. Effective January 1, 2015, the Government's required contribution was increased to 20.5% of the Tier I and Tier II member's annual salary.

Effective January 1, 2015, Tier I member contributions increased by 1% to 9% of annual salary for regular employees. Member contributions will increase an additional 1% on January 1, 2016, and January 1, 2017.

Effective February 5, 2015, Tier II member contributions increased by 1% to 9.5% of annual salary for regular employees, and will increase an additional 1% on January 1, 2016, and January 1, 2017.

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% per annum.

The Plan has 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:

Valuation Date:	October 1, 2014
Measurement Date:	September 30, 2014
Measurement Period:	October 1, 2013 - September 30, 2014

The Authority is considered an employer of the Plan with a proportionate share of 8.476% as of September 30, 2014. The Authority's percentage was determined based on its respective contributions as a percentage of the total contributions to the Plan. 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 \$5.7 million for the Plan's fiscal year ended September 30, 2014. The Electric System's allocated share of employer contribution for the same period was \$4.8 million.

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

As of June 30, 2015 the Authority's proportionate share of the net pension liability of the Plan was \$261.5 million. The net pension liability of the Plan is measured as of September 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2014. Actuarially determined proportionate share information from GERS was estimated by management based on a projection of the Authority's share of contributions to the Plan relative to all contributions to the Plan. The Electric System's allocation of the Authority's proportionate share of the net pension liability of the Plan as of the measurement date was \$216.4 million.

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

For the year ended June 30, 2015, the Authority recognized \$32.0 million of pension expense, inclusive of amortization of deferred outflow of pension related items. Of that amount, \$26.5 million was allocated to the Electric System's pension expense. Given the limited historical information provided to the Authority by GERS, it was not practical for the Authority to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. As such, and consistent with GASB No. 71, the Authority recognized a beginning deferred outflow of resources only for its pension contributions made subsequent to the measurement date of the beginning net pension liability but before the start of the plan's fiscal year. No beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions have been recognized. Following is a schedule of deferred outflows of resources allocated to the Water System in the computation of net pension liability:

Changes in Assumptions	\$ 13,553,814
Difference between expected and actual experience	2,015,608
Net difference between projected and actual earnings on pension plan investments	1,549,370
Change in proportionate share	5,120,171
Contributions made subsequent to measurement date	3,816,049
	<u>\$ 26,055,012</u>

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

### Year ending June 30:

2016	\$ 4,447,793
2017	4,447,793
2018	4,447,793
2019	4,447,793
2020	4,447,790

### **Actuarial Assumptions**

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

Inflation Rate:	2.85%
Salary Increases:	4.00% including inflation
Actuarial Cost Method:	Entry Age Normal
Expected Rate of Return:	7.5%
Municipal Bond Yield:	4.11%
Discount Rate:	4.42%
Mortality Table:	RP-2000 set forward 2 years

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

### Investment Rate of Return

The long-term expected rate of return of 7.5% 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 September 30, 2014, are summarized as follows:

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

### Discount Rate

The discount rate used to measure the total pension liability was 4.42% as of September 30, 2014 and 4.87% as of September 30, 2013. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the future increases in the employee contribution rates legislated. Based on those assumptions, the plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.5% 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 4.11% and 4.53% at September 30, 2014 and 2013, respectively.

### 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 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% lower or 1% higher than the current rate.

1% Decrease - Share of NPL @ 3.42%	Share of NPL @4.42%	1% Increase - Share of NPL @ 5.42%
\$ 251,348,990	\$ 216,472,978	\$ 186,984,816

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

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

### 8. Long-Term Liabilities

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

	2015	2014
2012 Electric System Revenue Refunding and Subordinated Revenue Bonds, interest payable semiannually on January 1 and July 1 at 4.125% to 5.4%; maturing in 2025	\$ 63,135,000	\$ 66,200,000
2010 Electric System Revenue and Refunding Bonds, interest payable semiannually on January 1 and July 1 at various rates ranging from 4.00% to 6.85%; maturing in 2035	66,540,000	71,520,000
2007 A Electric System Subordinated Revenue Bonds, interest payable semiannually on January 1 and July 1 at various rates ranging from 4.50% to 5.00%; maturing in 2031	57,585,000	57,585,000
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	50,930,000	53,440,000
Unamortized premium	3,311,295	3,531,152
General obligation notes at 5.5%	3,256,067	5,873,093
Lines of credit	25,128,440	25,128,440
Total long-term debt	269,885,802	283,277,685
Less current installments	(36,639,416)	(13,297,423)
Long-term debt, excluding current installments	\$ 233,246,386	\$ 269,980,262

The following is a schedule of changes in long-term liabilities and related accounts for the year ended June 30, 2015:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 248,745,000	\$ -	\$ (10,555,000)	\$ 238,190,000	\$ 11,010,000
Lines of credit	25,128,440	-	-	25,128,440	22,875,000
General obligation notes	5,873,093	-	(2,617,026)	3,256,067	2,754,416
Unamortized premium	3,531,152	-	(219,857)	3,311,295	-
OPEB Liability	36,774,494	6,404,290	-	43,178,784	-
Total long-term liabilities	\$ 320,052,179	\$ 6,404,290	\$ (13,391,883)	\$ 313,064,056	\$ 36,639,416

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

The following is a schedule of changes in long-term liabilities and related accounts for the year ended June 30, 2014:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 258,890,000	\$ -	\$ (10,145,000)	\$ 248,745,000	\$ 10,555,000
Lines of credit	16,875,000	8,253,440	-	25,128,440	-
General obligation notes	8,348,320	-	(2,475,227)	5,873,093	2,742,423
Unamortized premium	3,751,009	-	(219,857)	3,531,152	-
Other credits					
OPEB Liability	30,273,884	6,500,610	-	36,774,494	-
Total long-term liabilities	\$ 318,138,213	\$ 14,754,050	\$ (12,840,084)	\$ 320,052,179	\$ 13,297,423

Debt service requirements to maturity as of June 30, 2015, on the revenue bonds are as follows:

Year Ending June 30:	Principal	Interest	Total
2016	\$ 11,010,000	\$ 11,498,350	\$ 22,508,350
2017	11,530,000	10,976,775	22,506,775
2018	12,080,000	10,430,512	22,510,512
2019	12,820,000	9,840,713	22,660,713
2020 - 2024	70,265,000	39,728,266	109,993,266
2025 - 2029	67,005,000	21,739,047	88,744,047
2030 - 2034	45,800,000	6,977,760	52,777,760
2035 - 2039	7,680,000	516,713	8,196,713
	\$ 238,190,000	\$ 111,708,136	\$ 349,898,136

### Revenue Bonds

In May 2012, the Authority issued \$69.1 million in bonds made up as, \$17,390,000 in 2012A Electric System Revenue Refunding Bonds, \$19,690,000 in 2012B Electric System Subordinated Revenue Bonds, and \$32,065,000 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 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.

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

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In March 2010, the Authority issued \$85.3 million in bonds made up as, \$39,080,000 in 2010A Electric System Revenue Refunding Bonds, \$8,925,000 in 2010B Electric System Revenue Bonds, and \$37,330,000 in 2010C Electric System Revenue Bonds. The proceeds of the Series 2010A Bonds were used to 1) refund a portion of the Authority's Electric System Revenue Refunding Bonds, Series 1998, and 2) pay certain costs of issuance of the Series 2010A Bonds. The proceeds of the Series 2010B Bonds were used to finance certain capital expenditures temporarily funded through draws on a line of credit (\$9 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 cost 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 Revenue and Refunding Bonds.

In June 2007, the Authority issued \$57.6 million in 2007A Electric System Subordinated Revenue Bonds, to finance cost of certain capital improvements, refinance certain cost of capital improvements funded through draws on a Line of Credit and reinstalled \$10 million to the Line of Credit allocable to the Electric System, make certain required deposits to the subordinated Debt Service Reserve Fund, and pay certain costs of issuance of the Series 2007A Subordinated 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 million of then outstanding lines of credit, cover underwriters' costs, and establish a debt service fund.

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 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 1.0 times the Maximum Aggregate Debt Service for each such fiscal year (total debt coverage).

For the year ended June 30, 2015, the Authority's Debt Service Coverage ratio was 1.16 for total Debt Coverage. Section 606(2) of the Resolution provides that if the Authority fails to achieve such 1.00 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 believes it is taking such steps currently to ensure future compliance with the ratio, including filing of a request for increased rates. Also see Note 14.

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

The Authority's net electric revenues for the fiscal years ended 2015 and 2014 yielded the following coverage ratios:

	Requirement	2015	2014
Senior Coverage	125%	215%	225%
Senior and Subordinate Coverage	115%	136%	143%
Total Debt Coverage	100%	116%	125%

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.

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

### General Obligation Notes

In November 2008, the Authority obtained general obligation notes from FirstBank in the amount of \$40 million at an interest rate of 5.5% (the "Notes"), the proceeds of which were used to finance outstanding invoices from HOVENSA. The Notes were issued based on a five year amortization, but with a balloon payment in three years. In October 2008, pursuant to Amended Order No. 05/2009 in Docket No. 289, the PSC ordered (i) the principal and interest payments on the Notes to be recognized for recovery through the LEAC billing factor for the Electric System and the Water System commencing in November 2008, of which 82.5%, or \$7.6 million annually, has been allocated to the Electric System and 17.5%, or \$1.6 million annually, to the Water System, and (ii) the collection of the fuel costs recoverable balance to be reduced by the principal amount of the Notes. Pursuant to the Guaranty of the Government for the benefit of FirstBank, dated November 13, 2008 (the "General Obligation Guaranty"), which was authorized by the Legislature in Act 7028, the Government agreed to guarantee the payment of the principal and interest on the Notes.

In October 2010, the Authority petitioned the commission for approval of a refinancing of the \$40 million term loan. Through Order #16/2011 issued by the PSC in December 2010, the loan was approved. On December 22, 2010, the term-loan was refinanced at an interest rate of 5.25%. The term loan was refinanced based on a new five year amortization but with a balloon payment in three years.

In June 2012, the Authority petitioned the Commission for the approval of a refinancing of the remaining balance of the term loan following the Series 2012 Bond issue. Through Order # 27/2012 issued by the PSC in July, 2012, the loan was approved. The term loan was refinanced at an interest rate of 5.50% and final maturity on April 2016. The new allocation of the principal and interest payments of the Notes to be recognized for recovery through the LEAC billing factor for the Electric System is 30% and 70% for the Water System. As of June 30, 2015, the outstanding balance on the Notes was \$3.2 million.

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

Future debt service requirements to maturity as of June 30, 2015, on the notes are as follows:

<i>Year Ending June 30:</i>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 2,754,416	\$ 112,394	\$ 2,866,810
2017	501,651	3,493	505,144
	<b>\$ 3,256,067</b>	<b>\$ 115,887</b>	<b>\$ 3,371,954</b>

### 9. 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 or liquidity. Additionally, Title 30, Section 111(a) of the Virgin Islands Code exempts the Authority's property from lien, levy, and sale as the result of any judgment against the Authority, except by bondholders.

#### Grant Funds

The Authority is subject to audit examination by funding sources to determine compliance with grant conditions. In the event that expenditures would be disallowed, repayment could be required. Management believes that the impact of any disallowed grant expenditures would not have a material adverse effect on the Electric System.

#### Insurance Program

The Electric System is exposed to various risks of loss related to damage to 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 amounts of settlements have not included insurance coverage for each of the past two years.

#### Purchase Power Agreements

The Authority has signed purchase power agreements with several companies to integrate a combined 18MW of solar electricity into the Authority's electrical grid system. The agreements are for between 20 and 25 years, expiring between 2022 and 2027. The Authority will not own the solar assets, but will be able to purchase solar generated electricity at contracted rates.

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

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### 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.

### Leases

During the normal course of business, the Authority leases various property and equipment to support Electric System operations. The leases are generally short term in nature and lease payments are not material to the overall operations of the Electric System. A temporary 22-megawatt mobile power plant was leased for \$14.6 million for 18 months from April 2012 through October 2013. In November, 2013, management and the vendor extended the original lease agreement for an additional twelve months through November 2014 for \$7.8 million. Total lease payments for 2015 and 2014 were \$9.1 million and \$7.7 million, respectively.

### Vitol Group

In July 2013, the Governing Board of the Authority voted unanimously to approve an agreement between the Authority and the Vitol Group to build new infrastructure, convert existing turbines, as well as store and supply fuel for propane-based power generation. The project is designed to reduce the Authority's fuel costs by 30% and therefore intended to allow for significant savings to the Authority's rate payers. The original project budgeted costs of approximately \$90.0 million are to be paid upfront by Vitol Group. In November 2014, the project budget was revised to \$150.0 million. The Authority will have the right to use the power generation facilities and obligation to repay the majority of the ultimate project costs fronted by Vitol based on a 10 years amortization schedule (with the option to complete payment in 7 years) to be finalized once the project has reached substantial completion, which includes construction and successful testing. The project has revised targeted completion dates in fiscal 2016.

## 10. Hurricane Damage

### Hurricane Hugo

The Authority's facilities were damaged by Hurricane Hugo in September 1989. The Authority reconstructed its system with proceeds from insurance and FEMA. Subsequent to the receipt of funds, FEMA de-obligated approximately \$7.9 million in questioned costs. Approximately \$2.6 million of these questioned costs related to an oil spill that was subsequently settled with FEMA. During 1998, the Authority submitted a second appeal for \$4.4 million of the remaining questioned costs and agreed to refund approximately \$900,000 of questioned costs to FEMA. During 1999, FEMA denied the Authority's second appeal and formally closed the Hurricane Hugo disaster claim matter.

Both at June 30, 2015 and 2014, the Electric System has recorded a liability of \$4.1 million respectively for amounts owed to FEMA for overpayments related to these questioned costs. Currently, FEMA and its sub recipient, the Government of the 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.

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

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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 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 is eligible for reimbursement of 75% of what was expended according to the category of the damage. As of both June 30, 2015 and 2014, the Authority has recorded a grant receivable from FEMA through the Office of Management and Budget - Public Assistance (OMB-PA) amounting to approximately \$1.2 million.

### **Hurricane Earl**

On August 30, 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 has expended over \$2.0 million for storm clean-up and restoration, which was completed the end of October, 2010. The territory was declared a Federal disaster area after the Hurricane and is eligible for reimbursement of 75% - 80% of what was expended according to the category damage. The Authority recorded a grant receivable of \$1.1 million from FEMA through the Virgin Islands Territorial Emergency Management Agency (VITEMA) Public Assistance Program as of June 30, 2015 and 2014.

## **11. Other Post-Employment Benefits (OPEB)**

### **Policy Description**

The Authority provides certain postemployment 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 7) qualify for the Authority's postemployment benefits. As this is a policy and not a plan administered as a trust, a standalone report is not issued.

### **Annual OPEB Cost and Net OPEB Obligation**

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 actuary's estimate of the Authority's accrued OPEB liability, also known as the actuarial accrued liability, which approximates the present value of all future expected postemployment medical premiums (which are attributable to the past service of active and retired employees), was \$52.1 million at June 30, 2015 and the Electric System 2015 share is \$43.2 million. The Authority's annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost (current and future benefits earned) each year and to amortize any unfunded actuarial liabilities over a period of time not to exceed 24 years.

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

The Authority's annual OPEB cost for fiscal years 2015 and 2014 was \$9.4 million and \$9.2 million, respectively. Of this, the Electric System share for fiscal years 2015 and 2014 was \$8.3 million and \$8.2 million, respectively. The Authority's ARC as of June 30, 2015 and 2014, was \$9.5 million and \$9.3 million, respectively. Of this, the Electric System share as of June 30, 2015 and 2014 was \$8.3 million and \$8.2 million, respectively. The Authority's net OPEB obligation at June 30, 2015 and 2014 was approximately \$52.1 million and \$44.8 million, respectively, and the Electric System's share of the net OPEB obligation was \$ 43.2 million and \$36.7 million, respectively.

Description	2015	2014
Normal Cost (service cost for one year)	\$ 4,637,740	\$ 4,604,114
Amortization of Unfunded Actuarial Accrued liability	3,706,034	3,609,995
ARC	8,343,774	8,214,109
Interest on net OPEB Obligation	1,558,910	1,210,956
Adjustment to ARC	(1,623,865)	(1,261,412)
Annual OPEB cost (expense)	8,278,819	8,163,653
Contributions made	(1,874,529)	(1,663,044)
Increase in net OPEB obligation	6,404,290	6,500,609
Net OPEB obligation, beginning of year	36,774,493	30,273,884
Net OPEB Obligation, end of year	\$ 43,178,783	\$ 36,774,493

The Electric System's annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2015, 2014 and 2013 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/2013	\$ 4,869,780	\$ 1,149,134	24%	\$ 30,273,884
06/30/2014	8,163,653	1,663,044	20%	36,774,493
06/30/2015	8,278,819	1,874,529	23%	43,178,783

### Funding Policy, Status, and Progress

The Authority has not currently funded any portion of the net OPEB obligation. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The funded status of the Electric System's portion of the policy as of June 30, 2015 and 2014 was as follows:

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

	2015	2014
Actuarial Accrued Liability (a)	\$ 84,957,401	\$ 84,957,401
Actuarial Value of Plan Assets (b)	-	-
Unfunded Actuarial Accrued Liability (UALL) ( c ) = (a-b)	\$ 84,957,401	\$ 84,957,401
Funded Ratio (b/a)	0%	0%
Covered Payroll (Active Plan Members) (d)	\$ 23,551,148	\$ 23,551,148
UAAL as a Percentage of covered payroll (c/d)	361%	361%

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive policy (the policy as understood by the employer and policy members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and policy members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Individual Entry Age Normal Cost Method was used in the June 30, 2015 and 2014 actuarial valuations. Actuarial assumptions include a 24-year amortization period, a 4.0% discount rate, projected salary increases of 5.5% including inflation of 3.0%, payroll growth of 4.0%, an initial healthcare cost trend rate of 10.1%, and an ultimate trend rate of 5.0%. The Authority's unfunded actuarial accrued liability is being amortized in a rolling closed amortization, calculated as a level percent of payroll over a 24-year period.

## 12. Derivative Instruments (Hedging)

### 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. Realized gains or losses on hedging derivative instruments are recognized in operations in the period to which the derivative instruments relate. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the Authority to record the fair value of derivative instruments on the balance sheets as an asset or liability. The change in fair value of hedging derivative instruments (unrealized gains or losses) is recorded as deferred inflows or outflows of resources. Other commodity purchase contracts whereby it is probable that the Authority will take delivery of the commodity for use in operations are considered normal purchases and not accounted for as derivatives under GASB Statement No. 53.

### Hedging

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

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

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 balance sheets are based on pertinent information available to management at each balance sheet date. 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.

There were no derivative instruments outstanding at June 30, 2014. The following are the key terms of the Authority's derivative instruments as of June 30, 2015:

<u>Instrument</u>	<u>Effective Dates</u>	<u>Notional Amount (in Gallons)</u>	<u>Strike Prices</u>	<u>Fair Value and Change in Fair Value</u>
Mont Belvieu Swap - Propane Receive Fixed	Jan 2016 through Dec 2016	19,194,000	\$ 0.5425 - 0.5575	\$ (71,777)

### 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, TX 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 two counterparties; however, the Authority does not anticipate nonperformance. The counterparties to these contracts are affiliates of major financial institution or commodity companies with credit ratings of at least A with one of the major rating agencies.

<u>Counterparty</u>	<u>Counter Party Credit Ratings</u>	<u>FMV of Derivative Instrument at June 30, 2015 Asset / (Liability)</u>
J. Aron & Company (Goldman Sachs)	Jan 2016 - Dec 2016	\$ (24,868)
Shell Trading Risk Management, LLC (Royal Dutch Shell)	Jan 2016 - Mar 2016	\$ (46,909)

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

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**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 was 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.

### 13. viNGN In-Kind Contribution

On July 21, 2011, the Governing Board of the Authority approved a proposed strategy with terms and conditions to allow the Authority to negotiate and enter into an agreement with Virgin Islands Next Generation Network (viNGN) for the Broadband Expansion Project. On September 30, 2011, the Authority entered into a Memorandum of Agreement (MOA) with viNGN, Inc, a Virgin Islands Corporation and wholly owned subsidiary of the Virgin Islands Public Finance Authority (PFA), an autonomous instrumentality of the Government of the United States Virgin Islands.

The term of the MOA is twenty-five (25) years, following execution and upon expiration of the initial twenty-five years (25) be automatically renewed for two additional consecutive twenty-five (25) year terms unless either party provides a written notice of non-renewal to the other party not less than twelve (12) months but no sooner than twenty-four (24) months prior to the expiration of the original term or any additional term.

As part of the Broadband Expansion Project, the Authority is expected to provide in-kind contributions intended to satisfy a portion of the non- federal cost share requirement of the Comprehensive Community Infrastructure "CCI" grant. The Authority's in-kind contributions share consists of the use of certain of the Authority facilities, equipment and communications infrastructure.

The total in-kind match value was budgeted and confirmed at \$15,247,966.

### 14. Liquidity

The Electric system is in a precarious financial position based largely on outstanding receivables, the lack of liquidity, and a multi-million dollar lawsuit recently brought by a former fuel supplier.

The action by Moody's Investor Services to downgrade the Authority's bond rating was eminently expected, given the continued downward spiral of the public utility's finances and the challenge of stabilizing its financial footing. The two-notch drop in the Authority's credit rating does not bode well for the Authority on the bond market. It was conveyed that the Authority should have, at minimum, 45 days of cash on hand at an estimated value of \$34 million.

The Authority has been attempting to solidify the Authority's financial condition through the implementation of a multi-pronged action plan.

# Electric System of the Virgin Islands Water and Power Authority

## Notes to Financial Statements

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The Authority plans to develop a constant revenue stream to liquidate its debt as opposed to one-time payments such as the payment of \$8 million received from the Government for past due obligations of the Territory's hospitals. The Authority has reached out to the Administration's financial team of Governor who are working with the Authority to secure timely payments from the central government's departments and agencies and to fully integrate the Single Payer Utility Fund, the mechanism by which regular payments will be made by the Government. Further, the action plan includes a commitment by the Administration to continue addressing the outstanding streetlight obligation. The Authority with the support of the Administration provided a streetlight surcharge bill that has been forwarded to the Senate by the Governor to allow for the Authority to bill all customers for streetlights reducing the time it takes for the Authority to collect on streetlight expenses. This will provide additional monthly cash flow instead of limited payment stream that is currently provide by property taxes.

The plan also includes a strategy to right-size the Authority and the building of operational reserves. The Authority proposed a 2.687 cents per kilowatt increase to allow the Electric System to build the 45-day reserve over a two-year period. Although a decision was postponed by the Public Service Commission (PSC), the Authority is hopeful that the proposal will be approved to assist with the liquidity of the Authority. The Authority submitted a revised base rate increase that will further produce additional liquidity and build a working capital reserve on June 6, 2016.

Subsequent to year-end, in May 2016, the Authority also gave testimony on proposed Bill 31-0256 that would reduce the amount of interest that the Authority is required to pay on customer deposits, currently at 4.75% compounded annually to the average interest rates offered by banks. This will assist to lower the financial obligation of the Authority.

### 15. Subsequent Events

#### RUS Loan

On May 13, 2016, the Authority completed all filing requirements to drawn down funds. It is anticipated that funds will be released to the Authority in June 2016.

#### Rating Agency Action

On March 31, 2016, Moody's Investor's Services placed on review for downgrade the Authority's Baa3 Electric System revenue bonds rating and the Ba1 electric system subordinated revenue bonds rating. On June 6, 2016, Moody's Investor Services further downgraded the Electric System revenue bond rating to Ba2 from Baa3, and the electric system subordinated revenue bond rating to Ba3 from Ba1.

#### Rate Case

On November 30, 2015, the Authority's Governing Board authorized the Authority's management to file a petition (the Petition) with the Commission for permanent rates for the Electric System. On December 2015, the Authority filed for such rate increase before the Commission. On May 13, 2016, the Authority filed for an emergency interim Electric System base rate relief in the form of a cash reserve.

**Required  
Supplemental Information**

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# Electric System of the Virgin Islands Water and Power Authority

## Schedule of Funding Progress - Other Post-employment Benefits Obligation

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/a)
7/1/2009	\$ -	\$ 81,946,310	\$ 81,946,310	0.00%	\$ 21,806,493	376%
7/1/2011	\$ -	\$ 50,612,225	\$ 50,612,225	0.00%	\$ 22,324,435	227%
7/1/2013	\$ -	\$ 84,957,401	\$ 84,957,401	0.00%	\$ 23,551,148	361%

# Electric System of the Virgin Islands Water and Power Authority

## Schedule of System's Share of the Net Pension Liability Last Ten Fiscal Years

<i>Fiscal Year</i>	2015
System's allocation of the Authority's proportion of the NPL	7.0146%
System's allocation of the Authority's proportionate share of the NPL	\$ 216,472,978
System's covered-employee payroll	\$ 24,813,590
Systems allocation of the Authority's proportionate share of the NPL as a percentage of its covered-employee payroll	872.40%
Plan fiduciary net position as a percentage of the total pension liability	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 latest fiscal year.*

# Electric System of the Virgin Islands Water and Power Authority

## Schedule of System Contributions Last Ten Fiscal Years

<i>Fiscal Year</i>	2015
Actuarially required contributions	\$ 14,035,498
Contributions in relation to the contractually required contributions	3,816,049
Contribution deficiency (excess)	10,219,449
Covered-employee payroll	\$ 24,813,590
Contributions as a percentage of covered-employee payroll	15.38%

*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.*

## **Supplemental Schedule**

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