Electric System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis, Financial Statements (with Independent Auditor's Report Thereon), Required Supplemental Information and Supplemental Schedule (Unaudited)

Years Ended June 30, 2016 and 2015

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Contents

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Independent Auditor's Report

To the Governing Board
Virgin Islands Water and Power Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Electric System (the Electric System) of the Virgin Islands Water and Power Authority (the Authority), a major fund of the Authority, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Electric System's basic financial statements as listed in the table of contents. The Authority is a component unit of the Government of the U.S. Virgin Islands.

Management's Responsibility for the Financial Statements.

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, these financial statements present only the Electric System and do not purport to, and do not present fairly the financial position of the Authority, as of June 30, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As further discussed in Notes 1 and 3 to the financial statements, the Electric System adopted Governmental Accounting Standards Board Statement (GASB) No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Also, 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 postemployment benefits obligation, schedule of the system's share of the net pension liability, and schedule of the system's contributions on pages 6 through 13 and 51 through 53 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 an opinion on the financial statements that collectively comprise the Electric System's basic financial statements. The five-year comparative summary of operations is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2017, 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 27, 2017

Management's Discussion and Analysis

The Virgin Islands Water and Power Authority (the Authority) owns, operates, and maintains an electric generation and distribution system (the Electric System) and a water production and distribution system (the Water System), which are separately financed and require separate accounting and reporting. Each of these Systems is accounted for as a separate enterprise. As management of the Authority, we offer readers of the 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, 2016 and 2015. 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, 2016). The Authority also provides water service to more than 12,000 customers (as of June 30, 2016). 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 - 2016

- Net position decreased by $15.9 million or 11% as a result of fiscal year 2016 operations.

- Current assets decreased from $94.9 million to $91.8 million. This was due primarily as a result of a decrease in cash and cash equivalents of $3.8 million, decrease in customers' accounts receivable of $1.4 million, a decrease in fuel oil inventory of $5.1 million, a decrease in the Virgin Islands Government receivables of $6.8 million, an increase of the alternative energy research assets of $3.5 million, and investment derivative instrument gain of $9.8 million.

- Noncurrent assets decreased by $220 thousand, due primarily to a decrease in non-current Virgin Islands Government receivable of $6.4 million, a decrease in due from the Water System of $660 thousand offset by an increase in fuel costs recoverable of $7.3 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 2017.

- The fuel costs recoverable balance increased by $7.3 million to $9.7 million in 2016 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 2016, total operating revenues were $224.3 million compared to $270.3 million in 2015. The decrease is mainly due to decreases in fuel escalator revenues of $51.9 million offset by an increase in base revenues of $5.0 million and offset by $312 thousand in other revenues.

- Operating expenses, excluding depreciation, amortization, and fuel expense were $83.9 million for the year ended June 30, 2016; a decrease of $25.2 million compared to the year ended June 30, 2015. The decrease was primarily due to a decrease in administrative and general of $20.6 million, distribution expenses of $1.9 million, and decrease in operations and maintenance by $2.1 million.

- Capital grants and contributions received by the Electric System were $4.4 million in fiscal year 2016 compared to $7.3 million in fiscal year 2015. Of this amount, $3.8 million was fuel tax, $301 thousand was for St. Croix Schools and shelters underground project, $184 thousand was for the Integrated Resource Plan, and $47 thousand was for VITEMA headquarters underground project.

Financial Highlights – 2015

- Net position decreased by $25.2 million, or 61%, as a result of fiscal year 2015 operations.

- Current assets increased from $91.0 million to $94.9 million. This was due primarily as a result of a decrease in accounts receivable of $847 thousand and an increase in alternative energy research assets of $6.0 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 $27.0 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 was not expected to be collected in 2016.

- The fuel costs recoverable balance decreased by $27.0 million to $2.0 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 $270.0 million compared to $321.0 million in 2014. The decrease is mainly due to decreases in fuel escalator revenues of $52.0 million and base revenues of $5.0 million offset by $8.0 million in other revenues.

- Operating expenses, excluding depreciation, amortization, and fuel expense were $106 million for the year ended June 30, 2015; an increase of $31.2 million compared to the year ended June 30, 2014. The increase was primarily due to an increase in distribution expenses of $23.3 million and due to an increase in operations and maintenance 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 was for the Pad Mounted Transformer Project, $203 thousand was for the Distribution Automation/Smart Grid project, and $376 thousand was for the Frenchman Bay Road Utility relocation project.

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 – 50 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.

The table below provides a comparative review of key balance sheet captions.

Table 1
Condensed Balance Sheets

As of June 30,	**2016**	2015	2014
Current assets	**$ 91,971,906**	$ 94,924,511	$ 91,273,348
Restricted assets	**62,280,733**	58,635,060	57,622,056
Other non-current assets	**29,051,539**	28,828,665	50,721,877
Net capital assets	**321,517,107**	330,357,872	312,353,158
Deferred outflow of resources	**77,928,745**	26,126,789	-
Total assets and deferred outflow of resources	**$ 582,750,030**	$ 538,872,898	$ 511,970,439
Long-term debt	**$ 231,810,190**	$ 233,246,386	$ 269,980,262
Other liabilities	**497,610,776**	452,285,378	363,392,024
Total liabilities	**729,420,966**	685,531,764	633,372,286
Deferred inflow of resources	**15,931,551**	-	-
Net investment in capital assets	**189,945,373**	195,825,684	171,951,529
Restricted	**52,858,707**	49,238,255	47,544,187
Unrestricted	**(405,406,567)**	(391,722,806)	(340,897,562)
Total net position	**(162,602,487)**	(146,658,867)	(121,401,846)
Total liabilities, deferred inflows of resources, and net position	**$ 582,750,030**	$ 538,872,898	$ 511,970,439

At June 30, 2016, the Electric System had total assets and deferred outflow of resources of $582.7 million of which $321.5 million or 55% represents net capital assets. Borrowed funds have been instrumental in acquiring these assets, with $231.8 million in long-term bonds and lines of credit balances outstanding at June 30, 2016.

A significant change to the Electric System's financial statements related to the implementation 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*, in the prior year, which resulted in the restatement of beginning net position to record beginning net pension liability and beginning deferred outflows. At June 30, 2016 and 2015, the Electric system had a net pension liability of $258.9 million and $216.4 million respectively, which is included in other liabilities.

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

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

Years ended June 30,	**2016**	2015	2014
Base revenues	**$ 62,327,260**	$ 56,760,880	$ 62,148,162
Fuel escalator revenues	**135,799,775**	187,655,232	241,980,508
Investment earnings	**42,679**	26,221	90,676
Payment in lieu of taxes	**433,566**	428,394	435,562
Other income	**25,749,666**	25,465,318	16,651,312
Total revenues	**224,352,946**	270,336,045	321,306,220
Fuel	**125,688,066**	172,209,703	231,479,318
Operating expenses, excluding fuel, depreciation, amortization, and payment in lieu of taxes	**83,387,408**	108,645,443	74,660,514
Payment in lieu of taxes	**500,000**	500,000	500,000
Allowance for funds used during construction	**(133,116)**	(562,849)	(352,219)
Interest expense	**13,711,701**	14,025,824	13,520,973
Depreciation and amortization	**17,553,806**	10,770,895	15,906,038
Total expenses	**240,707,865**	305,589,016	335,714,624
Loss before capital grants and contributions	**(16,354,919)**	(35,252,971)	(14,408,404)
Loss on retirement of assets	**(13,772,676)**	-	-
Investment derivative instruments unrealized gain	**9,825,177**	-	-
Capital grants and contributions	**4,358,798**	7,306,087	11,521,024
Decrease in net position	**(15,943,620)**	(27,946,884)	(2,887,380)
Net position, beginning of year	**(146,658,867)**	(118,711,983)*	48,082,775
Net position, end of year	**$ (162,602,487)**	$ (146,658,867)	$ 45,195,395

**As restated for implementation of GASB Statement No. 68*

The Authority's Electric System net position decreased by $15.9 million or 11% during the 2016 fiscal year. Key elements of the decrease were as follows:

- Total operating revenues decreased by $46.0 million, primarily due to decrease of $51.9 million in fuel escalator revenues offset by an increase of $5.0 million in base revenues.

- Total operating expenses decreased by $65.0 million due to decreases of $48.6 million in total production expenses, a decrease of $20.6 million in administrative and general expenses offset by an increase of $6.7 million in depreciation and amortization expense.

- Total non-operating expenses increased by $4.0 million, primarily due to recording of gain on investments derivative instruments of $9.8 million offset by loss of $13.8 million on capital assets disposed.

- Capital grants and contributions decreased to $4.4 million in 2016 from $7.3 million in 2015.

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 partially 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 and $5.0 million in depreciation and amortization expense offset by an increase of $26.0 million in administrative and general 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.

Capital Asset and Debt Administration

Capital Assets

The Authority's investment in Electric System capital assets as of June 30, 2016, amounted to $321.0 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 the detail of capital assets, net of accumulated depreciation and property-related gains, at June 30, 2016, 2015, and 2014.

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

June 30,	**2016**	2015	2014
Land	**$ 4,654,206**	$ 4,654,206	$ 4,650,956
Utility plant in service	**251,263,593**	260,438,957	248,533,247
Buildings and fixed equipment	**17,439,709**	12,027,454	9,913,780
Furniture, fixtures, and equipment	**7,935,856**	4,962,352	4,628,441
Construction in progress	**40,223,743**	48,274,904	44,626,734
Net utility plant	**$ 321,517,107**	$ 330,357,873	$ 312,353,158

The Authority's fiscal 2017 capital budget anticipates investing $17.1 million in capital projects. The major projects completed in fiscal year 2016 were Phase II Christiansted Underground for $3.7 million, Control System upgrade for $1.1 million, Main Street Solar Project Interconnection Facility for $2.4 million, Street Light Control System Installation for $1.8 million, and Unit 18 Hot Gas Path Inspection and Repairs for $2.1 million.

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

Long-Term Debt

In November 2015, the Authority obtained a long term loan with the Rural Utilities Services (RUS) in the principal amount of $13.0 million. The proceeds of the loan will be used to finance or refinance the acquisition and installation of an automated metering system and other costs related thereto.

In May 2012, the Authority issued $69.1 million made up as $17.4 million 2012A Electric System Revenue Refunding Bonds, $19.7 million 2012B Electric System Subordinated Revenue Bonds, and $32.0 million 2012C Electric System Subordinated Revenue Bonds. The proceeds of the Series 2012A Bonds were used to (1) refund the Authority's Electric System Revenue Refunding Bonds, Series 1998, and (2) pay certain costs of issuance of the Series 2012A Bonds. The proceeds of the Series 2012B Bonds were used to (1) refinance a portion of the Authority's Electric System Term Loan, (2) make a deposit into the Subordinated Debt Service Reserve Fund sufficient to satisfy the Series 2012B 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), 27th Legislature of the United States Virgin Islands.

At June 30, 2016, the Electric System had total long-term debt outstanding (including current installments) of $243.3 million, a net decrease of $26.5 million from the prior year. Table 4 provides the detail of long-term debt as of June 30, 2016, 2015, and 2014.

Table 4
Long-Term Debt

June 30,	**2016**	2015	2014
Revenue bonds	**$ 227,180,000**	$ 238,190,000	$ 248,745,000
RUS note	**13,000,000**	-	-
Lines of credit	**-**	25,128,440	25,128,440
General obligation notes	**-**	3,256,067	5,873,093
Total	**240,180,000**	229,935,091	266,449,110
Plus unamortized premium	**3,160,190**	3,311,295	3,531,152
Total	**$ 243,340,190**	$ 269,885,802	$ 283,277,685

The Authority's ability to incur long-term indebtedness is capped by Virgin Islands statute at $500.0 million for the Electric and Water Systems combined. As of June 30, 2016, combined long-term debt amounts to approximately $250.4 million.

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

Requests for Information

This discussion and analysis is designed to provide a general overview of the Authority's Electric System 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

Electric System of the Virgin Islands Water and Power Authority

Balance Sheets

June 30,	**2016**	2015
Assets		
Current assets:		
Cash and cash equivalents	**$ 7,194,028**	$ 10,944,310
Accounts receivable:		
Customers and other, net	**8,753,529**	10,153,431
Virgin Islands Government	**17,193,337**	24,013,085
Virgin Islands Government, fuel tax receivable	**2,024,603**	1,915,685
Grants receivable	**2,632,554**	2,653,137
Unbilled revenues	**6,167,646**	6,430,286
Alternative energy research asset	**13,038,614**	9,520,903
Inventories:		
Fuel oil	**8,218,241**	13,289,288
Materials and supplies	**10,723,899**	10,821,714
Prepayments and other current assets	**6,200,278**	5,182,672
Investment derivative instruments	**9,825,177**	-
Total current assets	**91,971,906**	94,924,511
Restricted assets:		
Cash and cash equivalents	**18,221,906**	16,318,508
Investments	**37,737,271**	36,801,002
Due from unrestricted assets	**6,321,556**	5,515,550
Total restricted assets	**62,280,733**	58,635,060
Other non-current assets:		
Virgin Islands Government accounts receivable	**10,564,411**	16,991,419
Fuel costs recoverable	**9,733,805**	2,423,516
Due from Water System	**8,753,323**	9,413,730
Total other noncurrent assets	**29,051,539**	28,828,665
Capital assets:		
Utility plant in service	**639,410,273**	644,387,495
Less accumulated depreciation	**(358,116,910)**	(362,304,526)
Net utility plant in service	**281,293,363**	282,082,969
Construction in progress	**40,223,744**	48,274,904
Net capital assets	**321,517,107**	330,357,873
Deferred Outflows of Resources		
Derivative instruments	**-**	71,777
Pension related outflows	**77,928,745**	26,055,012
Total deferred outflow of resources	**77,928,745**	26,126,789
Total assets and deferred outflows of resources	**$582,750,030**	$538,872,898

Continued on next page.

Electric System of the Virgin Islands Water and Power Authority

Balance Sheets (continued)

June 30,	**2016**	2015
Liabilities, Deferred Inflows of Resources, and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 101,023,750**	$ 105,448,330
Customer deposits	**27,448,918**	25,924,796
Due to Federal Emergency Management Agency	**4,142,493**	4,142,493
Derivative instruments	**-**	71,777
Lines of credit	**25,128,440**	22,875,000
Current installment on general obligation notes	**477,597**	2,754,416
Total current liabilities	**158,221,198**	161,216,812
Liabilities payable from restricted assets:		
Current installments on long-term debt	**11,530,000**	11,010,000
Accrued interest payable	**5,930,210**	6,190,996
Insurance surcharge reserve	**8,700,257**	8,700,259
Due to restricted assets	**6,321,556**	5,515,550
Total liabilities payable from restricted assets	**32,482,023**	31,416,805
Long-term debt:		
Revenue bonds, excluding current installments	**215,650,000**	227,180,000
Rural Utilities Service note	**13,000,000**	–
Unamortized bond premiums	**3,160,190**	3,311,295
Lines of credit	**-**	2,253,440
General obligation notes	**-**	501,651
Total long-term debt	**231,810,190**	233,246,386
Long-term liabilities:		
Net pension liability	**258,982,351**	216,472,978
Accrued OPEB liability	**47,925,204**	43,178,784
Total long-term liabilities	**306,907,555**	259,651,762
Total liabilities	**729,420,966**	685,531,765
Deferred inflows of resources:		
Pension related inflows	**15,931,551**	–
Net position:		
Net investment in capital assets	**189,945,373**	195,825,684
Restricted	**52,858,707**	49,238,255
Unrestricted (deficit)	**(405,406,567)**	(391,722,806)
Total net position (deficit)	**(162,602,487)**	(146,658,867)
Total liabilities, deferred inflows of resources, and net position	**$ 582,750,030**	$ 538,872,898

See accompanying notes.

Electric System of the Virgin Islands Water and Power Authority

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30,	**2016**	2015
Operating Revenues		
Electricity sales to customers	**$ 47,984,195**	$ 43,375,725
Electricity sales to Virgin Islands Government	**14,281,634**	13,863,086
Fuel escalator revenues	**127,996,405**	175,052,995
LEAC revenue - RFM	**7,803,370**	12,602,237
OPEB surcharge	**5,239,552**	5,706,057
Maintenance surcharge	**15,954,156**	15,241,488
Payment in lieu of taxes	**433,566**	428,394
Line loss surcharge	**1,388,032**	1,372,130
Other operating revenues	**3,167,926**	3,145,643
Bad debt expense (recovery)	**61,431**	(477,931)
Total operating revenues	**224,310,267**	270,309,824
Operating Expenses		
Production:		
Fuel	**125,688,066**	172,209,703
Operations and maintenance	**32,596,030**	34,656,666
Total production expenses	**158,284,096**	206,866,369
Distribution	**8,185,087**	10,060,768
Customer service	**5,274,266**	5,996,523
Administrative and general	**37,332,025**	57,931,486
Payment in lieu of taxes	**500,000**	500,000
Depreciation and amortization	**17,553,806**	10,770,895
Total operating expenses	**227,129,280**	292,126,041
Operating loss	**(2,819,013)**	(21,816,217)
Nonoperating Revenues (Expenses):		
Loss on retirement of capital assets	**(13,772,676)**	-
Investment derivative instruments unrealized gain	**9,825,177**	-
Interest expense	**(13,711,701)**	(14,025,824)
Investment earnings	**42,679**	26,221
Allowance for funds used during construction	**133,116**	562,849
Total nonoperating expenses	**(17,483,405)**	(13,436,754)
Capital grants and contributions	**4,358,798**	7,306,087
Decrease in net position	**(15,943,620)**	(27,946,884)
Net position, beginning of year	**(146,658,867)**	45,195,395
Change in accounting principle	**-**	(163,907,378)
Net position, beginning of year, as restated	**(146,658,867)**	(118,711,983)
Net position, end of year	**$ (162,602,487)**	$ (146,658,867)

See accompanying notes.

Electric System of the Virgin Islands Water and Power Authority

Statements of Cash Flows

Years ended June 30,	**2016**	2015
Operating Activities		
Receipts from customers	**$ 239,069,798**	$ 288,636,387
Payments to suppliers	**(182,451,452)**	(210,726,688)
Payments to employees	**(24,665,773)**	(28,254,452)
Net cash provided by operating activities	**31,952,573**	49,655,247
Capital and Related Financing Activities		
Principal payments on long-term debt	**(11,010,000)**	(10,555,000)
Proceeds from long-term debt	**13,000,000**	-
Interest paid on long-term debt	**(11,848,909)**	(12,047,322)
Interest paid on customer deposits/other	**(1,096,965)**	(1,132,545)
Acquisition and construction of capital assets	**(22,485,717)**	(28,775,610)
Capital contributions received	**4,358,798**	7,306,087
Net cash used in capital and related financial activities	**(29,082,793)**	(45,204,390)
Non-capital Financing Activities		
Principal payments on general obligation notes	**(2,778,470)**	(2,617,026)
Interest paid on lines of credit	**(1,177,721)**	(1,291,378)
Net cash used in non-capital financing activities	**(3,956,191)**	(3,908,404)
Investing Activities		
Interest received	**175,796**	589,070
Purchases, sales, and maturities of investments, net	**(936,269)**	(243,257)
Net cash (used in) provided by investing activities	**(760,473)**	345,813
Net change in cash and cash equivalents	**(1,846,884)**	888,266
Cash and cash equivalents, beginning of year	**27,262,818**	26,374,552
Cash and cash equivalents, end of year	**$ 25,415,934**	$ 27,262,818

Continued on next page.

Electric System of the Virgin Islands Water and Power Authority

Statements of Cash Flows (continued)

Years ended June 30,	**2016**	2015
Cash and Cash Equivalents		
Unrestricted	**$ 7,194,028**	$ 10,944,310
Restricted	**18,221,906**	16,318,508
	$ 25,415,934	$ 27,262,818
Reconciliation of Operating Loss to Net Cash Provided By Operating Activities		
Operating loss	**$ (2,819,013)**	$ (21,816,217)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and ammortization	**17,553,806**	10,770,895
Changes in operating assets and liabilities:		
Accounts receivable, net	**14,820,962**	(3,190,874)
Alternative energy research asset	**(3,517,711)**	(6,501,783)
Inventories	**5,168,862**	1,809,394
Prepayments and other current assets	**(1,017,606)**	(633,697)
Due from Water System	**660,407**	(162,488)
Fuel costs recoverable	**(7,310,289)**	27,040,016
Accounts payable and accrued liabilities	**(4,424,580)**	8,692,452
Customer deposits	**1,524,122**	732,671
Net pension liability	**42,509,373**	216,472,978
Deferred outflows of resources	**(51,873,733)**	(26,055,012)
Deferred inflows of resources	**15,931,551**	–
Change in accounting principle	**-**	(163,907,378)
Accrued OPEB liability	**4,746,420**	6,404,290
Net cash provided by operating activities	**$ 31,952,573**	$ 49,655,247

See accompanying notes.

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

The Electric System of the Authority accounts for all activities associated with the generation and distribution of electricity 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.

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 Statement 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 include fuel costs recoverable and alternative energy research asset.

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, 2016 and 2015, the Electric System had $22.8 million and $11.9 million, respectively of regulatory assets and $8.7 million of regulatory liabilities in both years.

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

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

Cash and Cash Equivalents

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

Inventories

Fuel oil 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.

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.

Due from Water System

As of June 30, 2016 and 2015, the Electric System had a receivable due from the Water System in the amount of $8.8 million and $9.4 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 these balances 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 2.7% and 1.7% of average depreciable property for the years ended June 30, 2016 and 2015, respectively.

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

Management is also required to evaluate changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred, indicating the service utility of capital asset has declined significantly and unexpectedly. As such, the Electric System recorded a loss on decommissioning of a utility plant of $13.8 million to reflect the lower of its carrying value or fair value.

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 and deferred outflows for derivatives.

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.

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. Also see Note 16.

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.

Deferred Inflows of Resources

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

Net Position

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows. 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, 2016, the amount of fuel costs recoverable is estimated to not be recovered in 2017 and therefore, classified as long-term.

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 Grants and Contributions

The United States Government and the Virgin Islands Government appropriate and make available to the Authority grant funds for the construction and improvement of electric generation and distribution facilities. The 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 (see Note 2). For the years ended June 30, 2016 and 2015, the Electric System recognized as capital contributions $532,418 and $629,000, respectively, from the U.S. Government and $3.8 million and $5.5 million, respectively from the Virgin Islands Government.

Allowance for Funds Used During Construction

An allowance for funds used during construction (AFUDC) of $133,000 and $563,000 for the years ended June 30, 2016 and 2015, 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, 2016 and 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.

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.

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, 2016 and 2015, amounted to $5.7 million and $5.4 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 years ended June 30, 2016 and 2015, amounted to $4.6 million and $3.5 million, respectively.

New Accounting Pronouncements

In February 2015, GASB approved Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for the Authority's financial statements for the year ended June 30, 2016. The Authority has implemented this Statement and has provided additional disclosure within Note 3.

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

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

2. 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, 2016.

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

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

Load Research Program Fund – 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 other post-employment benefits (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. As of June 30, 2016 and 2015, the Authority has not repaid any of the amounts borrowed. The unpaid balance of $6.3 and $5.5 million respectively, is reflected as Due from Unrestricted Assets on the balance sheets.

Restricted assets at June 30, 2016 and 2015, consist of the following:

	2016	2015
Construction Fund	$ 2,787,889	$ 1,674,766
Debt Service Fund	18,290,157	18,025,350
Debt Service Reserve Fund	19,126,154	18,454,877
Cost of Issuance Fund	320,961	320,776
Self-Insurance Reserve Fund	3,990,714	3,903,693
Fuel Tax Fund	6,488,812	5,799,331
OPEB Fund	4,133278	4,120,870
Demand Side Management Fund	255,737	255,168
Load Research Program Fund	365,475	364,679
Due from Unrestricted Assets	6,321,556	5,515,550
HRSG 6B Escrow	200,000	200,000
	$ 62,280,733	$ 58,635,060

3. 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, 2016 and 2015, the Electric System had approximately $37.7 million and $36.8 million in investments which were invested in a U.S. Treasury fund with a AAAm rating and a maturity of less than a year.

The Electric System held certificate of deposits of approximately $5.1 million and $5.2 million as of June 30, 2016 and 2015, respectively, with a maturity date of less than a year. Cash deposits were $20.2 million and $22.1 million as June 30, 2016 and 2015, respectively.

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

Credit Risk and Concentration of Credit Risks - As of June 30, 2016, 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, 2016, 59.8% of the Electric System's cash and investments are in U.S. Governmental agency funds, 8.2% are invested in certificate of deposits, and 32% are in cash deposits.

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. As such, the Electric System's potential amount held in excess of the FDIC limits was $5,054,852 at June 30, 2016. 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.

Custodial risks - 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, 2016, 100% of Electric System's investments were held with the Bank of New York Mellon, as Trustee for the Authority.

Fair Value Measurements

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

Level 1: Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that an organization can access at the measurement date.

Level 2: Inputs are other than quotes prices included within Level 1 that are observable for an asset or liability, that are either directly or indirectly observable.

Level 3: Inputs are significant unobservable units.

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

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

Level 1: Investments classified within Level 1 are valued based on quotes obtained from active public exchanges or reported on the national market, and are stated at the last reported sales price on the day of valuation. Fair value of exchange-traded contracts is based upon exchange settlement prices.

Level 2: Investments classified within Level 2 are valued by pricing vendors using outside data. In determining the fair value of the investments, the pricing vendors use a market approach and pricing spreads based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security. Ineffective derivative instruments have been classified in Level 2 of the fair value hierarchy and are valued using valuations provided by a third party valuation service provider. See Note 12.

Following is the three-level fair value hierarchy as of June 30, 2016:

	Level 1	Level 2	Level 3
U.S. Treasury fund	$ 37,737,271	$ -	$ -
Derivative instruments	-	9,825,177	-

Following is the three-level fair value hierarchy as of June 30, 2015:

	Level 1	Level 2	Level 3
U.S. Treasury fund	$ 36,801,002	$ -	$ -
Derivative instruments	-	71,777	-

4. Accounts Receivable

Accounts receivable, current and non-current, at June 30, 2016 and 2015, consists of the following:

	2016	2015
Customers	**$ 21,161,532**	$ 22,421,706
Other	**440,557**	887,006
Less allowance for doubtful accounts	**(12,808,560)**	(13,155,281)
Customers and other, net	**8,753,529**	10,153,431
Virgin Islands Government	**27,757,748**	41,004,504
Virgin Islands Government Fuel Tax receivable	**2,024,603**	1,915,685
Grants	**2,632,554**	2,653,137
Unbilled revenues	**6,167,646**	6,430,286
Accounts receivable, net	**$ 47,336,080**	$ 62,157,043

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, 2016 and 2015, the Authority has classified Government accounts receivable of $10.6 million and $16.9 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.

5. Capital Assets

Capital assets activity for the year ended June 30, 2016, was as follows:

Description	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Non-depreciable assets:					
Land and land right	$ 4,654,206	$ -	$ -	$ -	$ 4,654,206
Construction in progress	48,274,904	15,536,590	(5,026,875)	(18,560,877)	40,223,743
Depreciable assets:					
Utility plant	639,733,289	6,949,127	(30,487,225)	18,560,877	634,756,068
Total at historical cost	692,662,399	22,485,716	(35,514,100)	-	679,634,017
Less accumulated depreciation and amortization	362,304,526	17,553,806	(21,741,424)	-	358,116,910
Total deductions	362,304,526	17,553,806	(21,741,424)	-	358,116,910
Capital assets, net	$ 330,357,873	$ 4,931,910	$ (13,772,676)	$ -	$ 321,517,107

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 and amortization	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

6. Lines of Credit

At June 30, 2016, the Authority has available bank lines of credit for $13.0 million for capital projects and $20.0 million 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.

The Authority has the option to select the variable interest rate to utilize. At both June 30, 2016 and 2015, there was $25.1 million outstanding under the lines of credit respectively. In 2015, the Authority signed an agreement extending maturity until June 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/inflows of resources.

Plan Description and Benefits

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

There are two tiers within the plan:

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

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

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation for Tier I members is determined by averaging the five highest years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during such service.

Average compensation for Tier II members is determined by averaging the most recent five years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during the service. The maximum annual salary that can be used in this computation is $65,000, except for senators and judges, whose annual salary is used.

Funding and Contribution Policy

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

Effective January 1, 2016, Tier I member contributions increased by 1.0% to 10.0% of annual salary for regular employees. Member contributions will increase an additional 1.0% on January 1, 2017, and January 1, 2018. Effective January 1, 2016, Tier II member contributions increased by 1.0% to 10.5% of annual salary for regular employees, and will increase an additional 1.0% on January 1, 2017, and January 1, 2018. Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective July 1, 2009, GERS' Board of Trustees approved an effective annual interest rate on refunded contributions of 2.00% per annum.

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:

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

The Authority is considered an employer of the plan with a proportionate share of 7.663% and 8.476% as of the measurement dates at September 30, 2015 and 2014, respectively. The Authority's percentage was determined based on its respective contributions as a percentage of the total contributions to the plan. 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 $5.2 million and $5.7 million for the plan's fiscal year ended September 30, 2015 and 2014, respectively. The Electric System's allocated share of employer contribution for the same period was $4.4 million and $4.8 million, respectively.

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

As of June 30, 2016 and 2015, the Authority's proportionate share of the net pension liability of the plan was $312.0 million and $261.5 million, respectively. The net pension liability of the plan is measured as of September 30, 2015 and 2014, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2015 and 2014, respectively. The Electric System's allocation of the Authority's proportionate share of net pension liability of the plan as of the measurement dates was $258.9 million and $216.5 million, respectively.

For the measurement date September 30, 2015, there was a change in assumptions for calculating the proportionate share. Actuarially determined proportionate share information from GERS was estimated by management based on an average three year respective share of the Authority's contributions to the plan relative to all contributions to the plan. For the measurement date September 30, 2014, proportionate share information from GERS was estimated by management based on the respective single year contributions.

For the year ended June 30, 2016 and 2015, the Authority recognized pension expense of $7.3 million and $32.0 million, respectively, inclusive of amortization of deferred outflows of pension related items. Of those amounts, $6.1 million and $26.5 million was allocated to the Electric System's pension expense, respectively.

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 48,017,000	$ -
Net difference between projected and actual earnings on pension plan investments	4,835,023	-
Difference between expected and actual experience	6,575,497	-
Changes in proportionate share	15,401,585	15,931,551
Contributions made subsequent to measurement date	3,099,640	-
	$ 77,928,745	$ 15,931,551

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 13,553,814	$ -
Net difference between projected and actual earnings on pension plan investments	1,549,370	-
Difference between expected and actual experience	2,015,608	-
Changes in proportionate share	5,120,171	-
Contributions made subsequent to measurement date	3,816,049	-
	$ 26,055,012	$ -

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

Year ending June 30,	
2017	$ 14,192,779
2018	14,192,779
2019	14,192,779
2020	8,618,349
2021	7,700,867

Actuarial Assumptions

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

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

Investment Rate of Return

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

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation, are summarized as follows as of the measurement date at September 30, 2015:

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

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

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

Discount Rate

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

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

The following presents the 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 for the year ended June 30, 2016:

1.0% Decrease - Share of NPL @ 2.84%	Share of NPL @ 3.84%	1.0% Increase - Share of NPL @ 4.84%
$ 302,618,549	$ 258,982,351	$ 222,875,475

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

1.0% Decrease - Share of NPL @ 3.42%	Share of NPL @ 4.42%	1.0% 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.

8. Long-Term Liabilities

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

	2016	2015
Rural Utilities Service Note, interest payable quarterly on each March 31, June 30, September 30, and December 31 at 1.6 %; maturing in 2035	**$ 13,000,000**	$ -
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	**59,940,000**	63,135,000
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	**61,360,000**	66,540,000
2007A 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	**48,295,000**	50,930,000
Unamortized premium	**3,160,190**	3,311,295
General obligation notes at 5.5%	**477,597**	3,256,067
Lines of credit	**25,128,440**	25,128,440
Total long-term debt	**268,946,227**	269,885,802
Less current installments	**(37,136,037)**	(36,639,416)
Long-term debt, excluding current installments	**$ 231,810,190**	$ 233,246,386

The following is a schedule of changes in long-term liabilities and related accounts for the year ended June 30, 2016:

Description	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**	**Due Within One Year**
Revenue bonds	**$ 238,190,000**	**$ -**	**$ (11,010,000)**	**$ 227,180,000**	**$ 11,530,000**
RUS Note	**-**	**13,000,000**	**-**	**13,000,000**	**-**
Lines of credit	**25,128,440**	**-**	**-**	**25,128,440**	**25,128,440**
General obligation notes	**3,256,067**	**-**	**(2,778,470)**	**477,597**	**477,597**
Unamortized premium	**3,311,295**	**-**	**(151,105)**	**3,160,190**	**-**
OPEB Liability	**43,178,784**	**4,746,420**	**-**	**47,925,204**	**-**
Total long-term liabilities	**$ 313,064,586**	**$ 17,746,420**	**$ (13,939,575)**	**$ 316,871,431**	**$ 37,136,037**

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

Future debt service requirements to maturity as of June 30, 2016, on the long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	$ 11,530,000	$ 12,017,788	$ 23,547,788
2018	12,408,282	11,506,868	23,915,150
2019	13,484,577	10,923,269	24,407,846
2020 – 2024	73,750,773	44,977,663	118,728,436
2025 – 2029	70,784,651	25,799,128	96,583,779
2030 – 2034	50,111,749	89,125,678	139,237,427
2035 – 2039	8,109,968	797,617	8,907,585
	$ 240,180,000	$ 195,148,011	$ 435,328,011

Revenue Bonds

In November 2015, the Authority obtained a term loan with the Rural Utilities Service (RUS) in the principal amount of S13.0 million. The proceeds of the loan will be used to finance or refinance the acquisition and installation of an automated metering system and other costs related thereto.

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

In March 2010, the Authority issued $85.3 million in bonds made up as, $39.1 million in 2010A Electric System Revenue Refunding Bonds, $8.9 million in 2010B Electric System Revenue Bonds, and $37.3 million in 2010C Electric System Revenue Bonds. The proceeds of the Series 2010A Bonds were used to (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 ($9.0 million) and to make certain deposits into the Debt Service Revenue Fund sufficient to satisfy the Debt Service Reserve Fund requirement. The proceeds of the Series 2010C Bonds were used to fund a portion of the 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 $10.0 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 $18.0 million of then outstanding lines of credit, cover underwriters' costs, and establish a debt service fund. The Series 2003 Bonds maturing on or after July 1, 2013, shall be subject to redemption prior to their stated maturity date, at the option of the Authority, on or after July 1, 2013, as a whole or in part at any time, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

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, 2016, the Authority's Debt Service Coverage ratio was 1.12 for total Debt Coverage. Section 606(2) of the Resolution provided 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.

The Authority's net electric revenues for the years 2016 and 2015, yielded the following coverage ratios:

	Requirement	2016	2015
Senior Coverage	**125%**	207%	215%
Senior and Subordinate Coverage	**115%**	131%	136%
Total Debt Coverage	**100%**	112%	116%

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

General Obligation Notes

In November 2008, the Authority obtained general obligation notes from FirstBank in the amount of $40.0 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 (1) 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 (2) 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 $40.0 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, 2016, the outstanding balance on the Notes was $448 thousand, payable within the next 12 months.

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's financial position or liquidity.

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.

Construction Contracts

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

Agreements with Seven Seas Corporation

The Authority has signed two agreements with Seven Seas Corporation to build, operate, and maintain two reverse osmosis facilities, one on St. Croix and one on St. Thomas, and sell the water from the facilities to the Water System. The agreements both have 20-year terms expiring through 2032.

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. The lease term was then amended for an additional twenty-four months through November 2016, for $13.2 million. Total lease payments for 2016 and 2015 were $7.3 million and $9.1 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 $160.0 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 year 2017.

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, 2016 and 2015, 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. 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 June 30, 2016 and 2015, the Authority has recorded a grant receivable from FEMA through the Office of Management and Budget – Public Assistance (OMB-PA) amounting to approximately $1.0 million and $1.2 million, respectively.

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 $1.3 million and $1.1 million from FEMA through the Virgin Islands Territorial Emergency Management Agency (VITEMA) Public Assistance Program as of June 30, 2016 and 2015.

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 health care 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 $57.6 million and $52.1 million at June 30, 2016 and 2015, respectively, and the Electric System 2016 and 2015 share was $47.9 million and $43.2 million, respectively.

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, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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 22 years. The Authority's annual OPEB cost for fiscal years 2016 and 2015 was $7.8 million and $9.5 million, respectively. Of this, the Electric System share for fiscal years 2016 and 2015, was $6.8 million and $8.3 million, respectively. The Authority's ARC as of June 30, 2016 and 2015, was $8.1 million and $9.5 million, respectively. Of this, the Electric System share as of June 30, 2016 and 2015, was $7.1 million and $8.3 million, respectively.

Description	**2016**	2015
Normal Cost (service cost for one year)	**$ 3,774,132**	$ 4,637,740
Amortization of Unfunded Actuarial Accrued liability	**3,300,889**	3,706,034
Annual Required Contribution (ARC)	**7,075,021**	8,343,774
Interest on Net OPEB Obligation	**1,720,832**	1,558,910
Adjustment to ARC	**(1,962,396)**	(1,623,865)
Annual OPEB Cost	**6,833,457**	8,278,819
Contributions Made	**(2,087,037)**	(1,874,529)
Increase in Net OPEB Obligation	**4,746,420**	6,404,290
Net OPEB Obligation, beginning of year	**43,178,784**	36,774,494
Net OPEB Obligation, end of year	**$ 47,925,204**	$ 43,178,784

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, 2016, 2015, and 2014, was as follows:

Fiscal Year Ended	**Annual OPEB Cost**	**Amount Contributed**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Obligation**
06/30/2014	$ 8,163,653	$ 1,663,044	20%	$ 36,774,494
06/30/2015	$ 8,399,909	$ 2,001,146	24%	$ 43,178,784
06/30/2016	$ 6,833,457	$ 2,087,037	31%	$ 47,925,204

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 supplemental 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, 2016 and 2015 was as follows:

	2016	2015
Actuarial Accrued Liability (a)	**$ 71,209,356**	$ 84,957,401
Actuarial Value of Plan Assets (b)	**-**	-
Unfunded Actuarial Accrued Liability (UAAL) (c) = (a-b)	**$ 71,209,356**	$ 84,957,401
Funded Ratio (b/a)	**0%**	0%
Covered Payroll (Active Plan Members) (d)	**$ 24,262,587**	$ 23,551,148
UAAL as a Percentage of covered payroll (c/d)	**293%**	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, 2016 valuation. Actuarial assumptions include a 22-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 27.5%, and an ultimate trend rate of 5.25%. The Authority's unfunded actuarial accrued liability is being amortized in a rolling closed amortization, calculated as a level percent of payroll over a 22-year period.

12. Derivative Instruments

Background

Beginning in 2015, the Authority began using derivative instruments, namely swaps, to hedge its commodity price risk associated with short-term and long-term changes in fuel prices. Derivative instruments are used by the Authority in its normal course of business to attempt to manage the impact to its customers of market price fluctuations for the purchase of propane. The Authority does not use derivative instruments for trading or speculative purposes. These contracts are evaluated pursuant to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to determine whether they meet the definition of derivative instruments, and whether they effectively hedge the expected cash flows associated with commodity price risk exposures. The fair values of the Authority's derivatives are reported on the Balance Sheets as derivative instruments.

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

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

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. 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. The fair value estimates for the Authority's derivative instruments represent the present value of the differences of the fixed prices in the related instruments less the OPIS Propane Mont Belvieu (Non-TET) forward price curve, multiplied by the corresponding monthly volume using the LIBOR forward interest rate curve as a discount rate.

The fair value balances of derivative instruments outstanding at June 30, 2016 and 2015 respectively, as reported in the financial statements are as follows (losses and liabilities in parentheses):

June 30,	**2016**	2015
Mont Belvieu Swap – Propane –	**Receive Fixed**	Receive Fixed
Notional Amount (in Gallons)	**76,650,000**	19,194,000
Fair Value	**$ 9,825,177**	$ (71,777)
Change in Fair Value	**$ 9,825,177**	$ (71,777)

The following are the key terms of the Authority's derivative instruments as of June 30, 2016:

Instrument	**Effective Dates**	**Notional Amount (in Gallons)**	**Strike Prices**	**Fair Value and Change in Fair Value**
Mont Belvieu Swap – Propane Receive Fixed	Jan 2016 through Dec 2016	76,650,000	$ 0.34 - 0.5575	$ 9,825,177

The following are the key terms of the Authority's derivative instruments as of June 30, 2015:

Instrument	Effective Dates	Notional Amount (in Gallons)	Strike Prices	Fair Value and Change in Fair Value
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 a 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 institutions or commodity companies with credit ratings of at least A with one of the major rating agencies.

The following are the key counterparty terms of the Authority's derivative instruments as of June 30, 2016:

Counterparty	Effective Dates	Fair Market Value of Derivative Instrument at June 30, 2016 Asset / (Liability)
J. Aron & Company (Goldman Sachs)	Jan 2016 – Dec 2018	$ 4,306,398
Shell Trading Risk Management, LLC (Royal Dutch Shell)	Jan 2016 – Mar 2018	$ 5,518,779

The following are the key counterparty terms of the Authority's derivative instruments as of June 30, 2015:

Counterparty	Counter Party Credit Ratings	Fair Market Value of Derivative Instrument at June 30, 2015 Asset / (Liability)
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)

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, 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 was budgeted at $15,247,966.

14. Management's Plan

The Electric System is in a precarious financial position based largely on outstanding receivables, bond downgrades, operating losses, 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. It was conveyed that the Authority should have, at minimum, 45 days of cash on hand at an estimated value of $34 million.

Management has been attempting to solidify its financial condition through the implementation of a multi-pronged action plan. The Authority plans to develop a constant revenue stream to liquidate its debt, as opposed to one-time payments such as the receipt of $8.0 million received from the Virgin Islands Government for past due obligations of the Territory's hospitals.

Management has reached out to the current Administration's financial team of the Governor who are working with the Authority to secure timely payments and to fully integrate the Single Payer Utility Fund, the mechanism by which regular payments will be made.

Management has also submitted revised base rate increases which will produce additional liquidity and build a working capital reserve. The plans also include a strategy to right-size the Authority and the building of operational reserves. These rate increases will allow the Electric System to build the 45-day reserve over a two-year period. The Authority is also taking action to secure financing for the acquisition of new generators slated to improve reliability and efficiency and meet shifts in energy demands going forward.

15. Regulatory Matters

In April 1998, the Governor signed into law Virgin Islands Act No. 6224, which provides that the Authority, as well as certain other instrumentalities of the Government, make a payment to the Government in lieu of taxes equal to 10% of net revenues or $500,000, whichever is greater. The term “net revenues” is not defined in the legislation. Subject to further clarification from the Legislature, the Authority has interpreted net revenues as net income calculated in accordance with generally accepted accounting principles. For the years ended June 30, 2016 and 2015, the Electric System incurred $500,000 in expenses related to this tax for both years, respectively.

16. Subsequent Events

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. The Public Service Commission (PSC) voted to merge the petition for emergency relief into the existing base rate case.

On November 4, 2016 the Authority’s Executive Director executed an Interim Agreement with the Executive Director of the PSC that would provide interim rate relief of $14.5 million annually. On January 12, 2017, the Commission voted to grant the Authority interim rate relief effective February 1, 2017. On January 26, 2017, the PSC held a special meeting and rescinded the rate approval that was granted two weeks prior.

The Authority filed a petition to stay the PSC’s decision with the Superior Court of the Virgin Islands. This matter is now before the Courts awaiting a decision. In the interim, the Authority was allowed to implement the interim rates on February 1, 2017. On February 22, 2017, the Commission voted to have the base rate case finalized for a PSC decision by May 31, 2017. On June 27, 2017, the PSC voted to implement the interim rates as the permanent Electric Rates.

Customer Deposits

Act 7931 was signed into law on September 20, 2016, which reduced the interest earned on customer deposits compounded annually from 4.75% to a rate equal to the average prevailing interest rate paid by local banks on saving accounts. This will assist to lower the financial obligation of the Authority.

Streetlight Conversion

On November 18, 2016, the Authority closed on financing for $33.9 million in which approximately $29.2 million will be used directly for the streetlight conversion project including (1) acquisition, assembly and installation of the LEDs and solar panels, (2) engineering and project management, and (3) integration with the Authority's Tantalus "smart meter" network or automated metering infrastructure (AMI). The remaining proceeds will be used to cover capitalized interest, which pays interest during the two-year period and closing costs. The switch to LED lighting on over 15,700 poles is expected to reduce electric consumption by 67%.

Additionally, dimming controls, which can be tailored to traffic patterns, sunset, etc., may provide additional savings. Solar panels will be installed on over 10,000 poles and are expected to generate 3.5 MW. The 3.5MW comes without the substantial capital and land costs from traditional solar farms. The power generated from the solar panels is expected to offset or nearly offset the expected consumption from the streetlights each year over the next 20 years making it a “net zero” project. The project will be integrated with the Authority’s Tantalus AMI network providing even greater flexibility and control.

The Authority issued BANs to fund the project since long term rates have trended higher with the downgrades. The rate on the BANs was 5.50%, maturing November 15, 2018. The Authority is working with the RUS program for long term funding, which would most likely provide the lowest cost of long term capital, otherwise the Authority would issue long-term bonds or “roll” or re-issue another short term note to keep rates low until a long-term financing option is viable. The project is projected to have annual savings guarantees of approximately $2.6 million over 20 years upon full implementation even when accounting for debt service.

Rating Agency Action

On January 25, 2017, Moody’s Investor’s Services downgraded the Authority’s senior Electric System revenue bond rating to Caa1 from B1 and the Electric System subordinated revenue bond rating to Caa2 from B2.

New Generation

As a result of the integrated resource plan and the near term generation plan shared with the Governing Board in January 2017, the Authority entered into a contract with a major supplier for 6 new generating units between 7 and 9MW each. The financing of $85.0 million will support the acquisition of the units outlined above along with control rooms, operational centers on each District, the capitalized interest for one year, the required deposits to the debt service reserve fund, and issuance costs.

Lawsuit

On May 10, 2017, the Authority conferred and consented to a judgement in favor of the plaintiff, a major fuel supplier, in the amount of $24.5 million with all parties bearing their own cost and attorney fees.

Management's Evaluation

Management has evaluated any events or transactions occurring after June 30, 2016, the balance sheet date through June 27, 2017, the date the financial statements were available to be issued, and noted that there have been no additional events or transactions which would require adjustments to or disclosure in the Electric System's financial statements for the year ended June 30, 2016.

Required
Supplemental Information

Electric System of the Virgin Islands Water and Power Authority

Schedule of Funding Progress - Other Postemployment 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)
7/1/2011	$ -	$ 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%
7/1/2015	$ -	$ 71,209,356	$ 71,209,356	0.00%	$ 24,262,587	293%

Electric System of the Virgin Islands Water and Power Authority

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

Fiscal Year	**2016**	2015
Electric System's proportion of the net pension liability	**6.3710%**	7.0146%
Electric System's proportionate share of the net pension liability	**$ 258,982,351**	$ 216,472,978
Electric System's covered-employee payroll	**$ 24,262,587**	$ 24,813,590
Electric System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	**1067%**	872%
Plan fiduciary net position as a percentage of the total pension liability	**19.58%**	27.26%

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

Electric System of the Virgin Islands Water and Power Authority

Schedule of the System's Contributions

Fiscal Year	**2016**	2015
Actuarially required contributions	**$ 15,746,445**	$ 14,035,498
Contributions in relation to the actuarially required contributions	**3,136,986**	3,816,049
Contribution deficiency (excess)	**$ 12,609,459**	$ 10,219,449
Covered-employee payroll	**$ 20,450,139**	$ 24,813,590
Contributions as a percentage of covered-employee payroll	**15.34%**	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

Electric System of the Virgin Islands Water and Power Authority

Five-Year Comparative Summary of Operations (Unaudited)

Years Ended June 30,	**2016**	2015	2014	2013	2012
Operating revenues:					
Electricity sales to customers	**$ 47,984,195**	$ 43,375,725	$ 48,818,266	$ 60,160,624	$ 59,429,115
Electricity sales to Virgin Islands Government	**14,281,634**	13,863,086	15,316,764	16,217,759	13,228,895
Fuel escalator revenues	**127,996,405**	175,052,995	227,236,715	242,864,638	255,101,941
LEAC Revenue - RFM	**7,803,370**	12,602,237	14,743,793	15,652,442	-
OPEB surcharge	**5,239,552**	5,706,057	3,064,093	-	-
Maintenance surcharge	**15,954,156**	15,241,488	8,802,335	-	-
Payment in lieu of taxes	**433,566**	428,394	435,562	462,412	496,808
Line Loss Surcharge	**1,388,032**	1,372,130	1,379,693	1,480,347	1,590,005
Other operating revenues	**3,167,926**	3,145,643	3,405,191	4,319,351	3,557,542
Bad debt expense (recovery)	**61,431**	(477,931)	(1,986,868)	(2,156,712)	(1,990,005)
Total operating revenues	**224,310,267**	270,309,824	321,215,542	339,000,861	331,414,302
Operating expenses:					
Production:					
Fuel	**125,688,066**	172,209,703	231,710,866	248,812,136	255,247,974
Operations and maintenance	**32,596,030**	30,896,793	26,121,817	29,590,585	22,609,731
Expenses allocated to Water System	**-**	3,759,873	(231,548)	(7,937,629)	(12,299,511)
Total production expenses	**158,284,096**	206,866,369	257,601,135	270,465,092	265,558,194
Distribution	**8,185,087**	10,060,768	10,546,466	10,215,931	10,610,365
Customer service	**5,274,266**	5,996,523	6,597,527	6,499,685	6,566,082
Administrative and general	**37,332,025**	57,931,486	31,394,703	27,877,954	28,211,471
Payment in lieu of taxes	**500,000**	500,000	500,000	500,000	500,000
Depreciation and amortization	**17,553,806**	10,770,895	15,906,038	23,319,980	22,694,161
Total operating expenses	**227,129,280**	292,126,041	322,545,869	338,878,642	334,140,273
Operating (loss) income	**(2,819,013)**	(21,816,217)	(1,330,326)	122,219	(2,725,971)
Nonoperating revenues (expenses):					
Loss on retirement of capital assets	**(13,772,676)**	-	-	-	-
Investment derivative instruments gain	**9,825,177**	-	-	-	-
Interest expense	**(13,711,701)**	(14,025,824)	(13,520,973)	(13,888,691)	(15,524,277)
Investment earnings	**42,679**	26,221	90,676	119,391	439,993
Allowance for funds used during construction	**133,116**	562,849	352,219	308,567	556,477
Total nonoperating expenses	**(17,483,405)**	(13,436,754)	(13,078,078)	(13,460,733)	(14,527,807)
Capital grants and contributions	**4,358,798**	7,306,087	-	4,944,004	1,951,165
Decrease in net position	**$ (15,943,620)**	$ (27,946,884)	$ (14,408,403)	$ (8,394,510)	$ (15,302,614)
Electricity sales:					
Residential	**$ 20,661,002**	$ 18,258,074	$ 20,757,253	$ 24,784,698	$ 23,594,535
Commercial	**11,897,278**	10,804,383	12,302,477	14,791,196	14,949,978
Industrial	**24,950,450**	23,295,343	26,198,536	32,257,346	30,001,967
Street lighting	**3,547,327**	3,708,284	4,237,273	4,545,291	4,111,400
Fuel escalator	**127,996,405**	175,052,995	227,236,715	242,864,638	255,101,941
LEAC Revenue - RFM	**7,803,370**	12,602,237	14,743,793	15,652,442	-
PILOT	**433,566**	428,394	435,562	462,412	496,808
Waste heat recovery boiler surcharge	**-**	(3)	(162)	(18)	131
OPEB Surcharge	**5,239,552**	5,706,057	3,064,093	-	-
Maintenance surcharge	**15,954,156**	15,241,488	8,802,335	-	-
Emergency surcharge	**-**	(279)	-	(6)	1
Self-insurance surcharge	**1,209,787**	1,173,010	639,654	(3)	(5)
Asbestos surcharge	-	-	-	(3)	1
Line Loss Surcharge	**1,388,032**	1,372,130	1,379,693	1,480,347	1,590,005
Total	**$ 221,080,925**	$ 267,642,113	$ 319,797,222	$ 336,838,340	$ 329,846,762
Kilowatt-hour sales (in thousands):					
Residential	**224,268**	211,753	219,402	231,148	249,012
Commercial	**115,464**	108,148	113,517	123,234	139,413
Industrial	**281,609**	283,558	291,037	309,304	318,578
Street lighting	**17,350**	17,422	17,078	16,854	16,915
Total	**638,691**	620,881	641,034	680,540	723,918
Number of customers at year-end	54,881	54,881	54,917	54,571	54,653