



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

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## Independent Auditor's Report

To the Governing Board  
Virgin Islands Water and Power Authority

### Report on the Financial Statements

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

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

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### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water 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 Water 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 Water 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.

### *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 12 and 41 through 43 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 Water System's basic financial statements. The five-year comparative summary of operations is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2017, on our consideration of the Water 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 Water System's internal control over financial reporting and compliance.

*BDO USA, LLP*

June 27, 2017

## Management's Discussion and Analysis

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# Water System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

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The Virgin Islands Water and Power Authority (the Authority) owns, operates, and maintains a water production and distribution system (the Water System) and an electric generation and distribution system (the Electric System), which are separately financed and require separate accounting and reporting. Each of these systems is accounted for as a separate enterprise fund. As management of the Authority, we offer readers of the Water System financial statements this discussion and analysis of the financial activities of the Water System for the years ended June 30, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the financial statements that follow this section.

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

The Authority provides water service to more than 12,000 customers (as of June 30, 2016). The Authority also provides electric service to approximately 55,000 customers (as of June 30, 2016). The Water System's 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 expenses. The Authority does not use rate base or rate of return principles for setting rates.

### Financial Highlights - 2016

The Water System's net position decreased by \$1.4 million, or 9%, as a result of 2016 operations. There was \$31.3 million in total operating revenues and \$1.5 million in capital grants and contributions, offset by \$30.5 million in operating and production expenses and \$3.6 million in total non-operating expenses.

- The Water System's fuel costs recoverable balance increased by \$585 thousand or 360%, as the LEAC factors approved by the PSC were not adequate to recover the cost of fuel in the current period.
- During 2016, the Water System's total operating revenues decreased by \$1.8 million, or a 6% decrease. The decrease is attributable mainly to decreases in fuel escalator revenues of \$1.6 million.
- Operating and production expenses decreased from \$36.5 million to \$30.5 million, a 16% decrease compared to the prior year. This was due to decreases of \$1.7 million in production cost of water distributed and a \$4.3 million decrease in operations and maintenance costs in addition to a decrease of \$322 thousand in customer expenses offset by an increase of \$610 thousand in administrative and general expenses.



# Water System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

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### Financial Highlights - 2015

The Water System's net position decreased by \$4.0 million, or 22%, as a result of 2015 operations. There was \$33.1 million in total operating revenues and \$29 thousand in capital grants and contributions, offset by \$36.5 million in operating and production expenses and \$685 thousand in total non-operating expenses.

- The Water System's fuel costs recoverable balance increased by \$8 thousand or 6%, as the LEAC factors approved by the PSC were adequate to recover the cost of fuel in the current period.
- During 2015, the Water System's total operating revenues increased by \$1.6 million, or a 5% increase. The increase is attributable mainly to increases in water sales to customers of \$584 thousand and fuel escalator revenues of \$988 thousand.
- Operating and production expenses increased from \$30.0 million to \$36.5 million, a 22% increase compared to the prior year. This was due to increases of \$1.3 million in production cost of water distributed and a \$5.2 million increase in operations and maintenance costs offset by decrease of \$103 thousand in customer expenses.

### Overview of the Financial Statements

#### *Balance Sheet*

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

#### *Statement of Revenues, Expenses, and Changes in Net Position*

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

#### *Statement of Cash Flows*

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

#### *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 18 - 40 of this report.

# Water System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

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

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

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

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

<i>As of June 30,</i>	2016	2015	2014
Current assets	\$ 12,069,644	\$ 12,553,366	\$ 13,831,632
Restricted assets	9,663,437	9,595,933	8,807,647
Other non-current assets	2,375,320	3,014,609	1,310,570
Capital assets	62,476,113	64,934,739	66,383,985
Deferred outflows of resources	15,961,309	5,419,508	-
Total assets and deferred outflows of resources	\$ 102,545,823	\$ 95,518,155	\$ 90,333,834
Long-term liabilities	\$ 75,162,827	\$ 70,465,205	\$ 30,142,359
Other liabilities	10,753,113	10,301,363	7,302,966
Deferred inflows of resources	3,263,089	-	-
Total liabilities and deferred inflows	89,179,029	80,766,568	37,445,325
Net investment in capital assets	56,533,517	56,170,321	54,997,344
Restricted	8,921,904	8,818,702	7,970,360
Unrestricted	(52,088,627)	(50,237,436)	(10,079,195)
Total net position	13,366,794	14,751,587	52,888,509
Total liabilities, deferred inflows of resources, and net position	\$ 102,545,823	\$ 95,518,155	\$ 90,333,834

# Water System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

At June 30, 2016, the Water System had total assets and deferred outflows of resources of \$102.5 million of which \$62.5 million or 61% represents net capital assets.

A significant change to the Water 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*, 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 Water system had a net pension liability of \$53.0 million and \$45.0 million respectively, which is included in long-term liabilities.

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

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

<i>Years ended June 30,</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Base revenues	\$ 20,875,224	\$ 20,941,498	\$ 21,178,193
Fuel escalator revenues	9,759,747	11,332,551	10,343,859
Line Loss Surcharge	723,183	756,256	395,485
Investment earnings	12,922	9,844	28,546
Bad debt (recovery) expense	(80,420)	72,960	(415,486)
<b>Total revenues</b>	<b>31,290,656</b>	<b>33,113,109</b>	<b>31,530,597</b>
Production cost of water distributed	11,835,397	13,502,213	12,128,267
Operating expenses, excluding production, depreciation, and amortization	15,540,049	19,578,908	14,396,246
Depreciation, net of amortization	3,144,304	3,409,422	3,413,191
Loss on retirement of capital assets	3,147,815	-	-
Interest expense	506,873	695,573	864,360
<b>Total expenses</b>	<b>34,174,438</b>	<b>37,186,116</b>	<b>30,802,064</b>
(Loss) income before capital grants and contributions	(2,883,782)	(4,073,007)	728,533
Capital grants and contributions	1,498,989	29,238	3,007,146
(Decrease) increase in net position	(1,384,793)	(4,043,769)	3,735,679
Net position, beginning of year	14,751,587	18,795,356*	49,152,830
<b>Net position, end of year</b>	<b>\$ 13,366,794</b>	<b>\$ 14,751,587</b>	<b>\$ 52,888,509</b>

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

# Water System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

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The Water System's net position decreased by \$1.3 million during the fiscal year ended June 30, 2016. Key elements of the 2016 decreases are as follows:

- Fuel escalator revenues reflect a decrease of \$1.6 million or 14% in fiscal year 2016 compared to fiscal year 2015. This was mainly due to an overall decrease in the average LEAC rate.
- Total operating and production expenses decreased by \$5.7 million, mainly as a result of a decrease of fuel costs allocated to the Water System from the Electric System. This is due to the Authority's use of reverse osmosis to produce water compared to the use of the IDE Desalinization Plants.
- Retirement of capital assets in fiscal year 2016 resulted in a loss of \$3.1 million.

The Water System's net position decreased by \$4.0 million during the fiscal year ended June 30, 2015. Key elements of the 2015 decrease are as follows:

- Base revenue reflects a decrease of \$236 thousand or 1% in fiscal year 2015 compared to fiscal year 2014, which is due to a decrease in sales of water. The decrease in sales is due to a base rate decrease in fiscal year 2015.
- Fuel escalator revenues reflect an increase of \$988 thousand or 10% in fiscal year 2015 compared to fiscal year 2014. This was mainly due to an overall increase in the average LEAC rate.
- Total operating and production expenses decreased by \$3.0 million, mainly as a result of a decrease of fuel costs allocated to the Water System from the Electric System. This is due to the Authority's use of reverse osmosis to produce water compared to the use of the IDE Desalinization Plants.

### Capital Asset and Debt Administration

#### *Capital Assets*

The Water System's capital assets as of June 30, 2016, amounted to \$62.5 million (net of accumulated depreciation and property-related gains), which reflected a decrease of \$2.5 million, or 4% compared to last year. These capital assets include land, transmission, distribution and collection systems, buildings and fixed equipment, and furniture, fixtures, and equipment.

Table 3 provides the detail of the capital assets net of accumulated depreciation and property-related gains.

# Water System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

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

<i>June 30,</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Land	\$ 184,225	\$ 184,225	\$ 184,225
Utility plant in service	53,497,029	60,089,660	62,799,980
Buildings and fixed equipment	4,369,550	441,528	347,443
Furniture, fixtures, and equipment	344,519	545,628	511,470
Construction work-in-progress	4,080,790	3,673,698	2,540,867
<b>Net utility plant</b>	<b>\$ 62,476,113</b>	<b>\$ 64,934,739</b>	<b>\$ 66,383,985</b>

The major projects completed in fiscal year 2016 were the Midland Road Rehabilitation for \$245 thousand, Catchment Tank Liner for \$379 thousand, and Anna's Retreat Water Distribution System (Phase 1B) for \$734 thousand.

The Authority's fiscal year 2017 capital budget includes investing \$14.2 million in capital projects. Included in the amount of capital projects are \$7.8 million of water projects that have been identified for funding from the U.S. Department of Interior, U.S. Environmental Protection Agency, Virgin Islands local agencies, and \$2.4 million from the Virgin Islands Government Property Capital Tax Fund. The balance of the funding for the capital program is expected to be provided from internal sources, including available cash balances. Additional information on capital assets can be found in Note 6.

### *Long-Term Debt*

At June 30, 2016, the Water System had total long-term debt outstanding of \$7.1 million, comprised of revenue bonds, net of unamortized discount. In fiscal year 2016, the Water System decreased its long-term debt by 31%, or \$3.3 million, through scheduled maturities and amortization.

Table 4 provides the detail of long-term debt.

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

<i>June 30,</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Revenue bonds	\$ 7,140,000	\$ 10,435,000	\$ 13,560,000
Lines of credit	-	-	2,500,000
	<b>7,140,000</b>	<b>10,435,000</b>	<b>16,060,000</b>
Less unamortized bond discount	(21,882)	(43,764)	(65,647)
<b>Total</b>	<b>\$ 7,118,118</b>	<b>\$ 10,391,236</b>	<b>\$ 15,994,353</b>

# Water System of the Virgin Islands Water and Power Authority

## Management's Discussion and Analysis

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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 9.

### Requests for Information

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

## Financial Statements

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# Water System of the Virgin Islands Water and Power Authority

## Balance Sheets

<i>June 30,</i>	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,079,961	\$ 4,259,142
Accounts receivable:		
Customers and other, net	795,229	929,220
Virgin Islands Government, net	2,576,938	3,999,006
Grants receivable	942,790	163,362
Fuel costs recoverable	747,694	162,608
Unbilled revenues	1,407,504	1,567,915
Inventories:		
Water	310,458	364,684
Materials and supplies	542,042	654,153
Prepayments and other current assets	667,028	453,276
<b>Total current assets</b>	<b>12,069,644</b>	<b>12,553,366</b>
Restricted assets:		
Cash and cash equivalents	2,119,629	2,117,725
Investments	7,543,808	7,478,208
<b>Total restricted assets</b>	<b>9,663,437</b>	<b>9,595,933</b>
Other noncurrent assets:		
Virgin Islands Government receivables	2,375,320	3,014,609
Capital assets:		
Utility plant in service	109,335,740	145,838,848
Less accumulated depreciation	(49,889,163)	(83,339,045)
Property-related gains, net	(1,051,254)	(1,238,762)
Net utility plant in service	58,395,323	61,261,041
Construction in progress	4,080,790	3,673,698
<b>Net capital assets</b>	<b>62,476,113</b>	<b>64,934,739</b>
<b>Deferred Outflows of Resources</b>		
Pension related outflows	15,961,309	5,419,508
<b>Total assets and deferred outflows of resources</b>	<b>\$102,545,823</b>	<b>\$ 95,518,155</b>

*Continued on next page.*



# Water System of the Virgin Islands Water and Power Authority

## Balance Sheets (continued)

<i>June 30,</i>	2016	2015
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,581,763	\$ 4,219,401
Lines of credit	2,500,000	2,500,000
<b>Total current liabilities</b>	<b>7,081,763</b>	<b>6,719,401</b>
Liabilities payable from restricted assets:		
Current installments of long-term debt	3,475,000	3,295,000
Accrued interest payable	196,350	286,962
<b>Total liabilities payable from restricted assets</b>	<b>3,671,350</b>	<b>3,581,962</b>
Long-term debt:		
Water System revenue bonds, excluding current installments	3,665,000	7,140,000
Unamortized bond discount	(21,882)	(43,764)
<b>Total long-term debt</b>	<b>3,643,118</b>	<b>7,096,236</b>
Long-term liabilities:		
Net pension liability	53,044,578	45,026,931
Accrued OPEB liability	9,721,808	8,928,308
Due to Electric System	8,753,323	9,413,730
<b>Total long-term liabilities</b>	<b>71,519,709</b>	<b>63,368,969</b>
<b>Total liabilities</b>	<b>85,915,940</b>	<b>80,766,568</b>
Deferred inflows of resources:		
Pension related inflows	3,263,089	-
Net position:		
Net investment in capital assets	56,533,517	56,170,321
Restricted	8,921,904	8,818,702
Unrestricted (deficit)	(52,088,627)	(50,237,436)
<b>Total net position</b>	<b>13,366,794</b>	<b>14,751,587</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$102,545,823</b>	<b>\$ 95,518,155</b>
<i>See accompanying notes.</i>		

# Water System of the Virgin Islands Water and Power Authority

## Statements of Revenues, Expenses, and Changes in Net Position

<i>Years Ended June 30,</i>	2016	2015
<b>Operating Revenues</b>		
Water sales to customers	\$ 12,168,501	\$ 10,958,862
Water sales to Virgin Islands Government	8,223,966	9,503,662
Fuel escalator revenues	9,759,747	11,332,551
Line loss surcharge	723,183	756,256
Other operating revenues	482,757	478,974
Bad debt (recovery) expense	(80,420)	72,960
<b>Total operating revenues</b>	<b>31,277,734</b>	<b>33,103,265</b>
<b>Operating and Production Expenses</b>		
Production cost of water distributed	11,835,397	13,502,213
Operations and maintenance	8,886,167	13,212,720
Customer service	925,581	1,248,120
Administrative and general	5,728,301	5,118,068
Depreciation, net of amortization	3,144,304	3,409,422
<b>Total operating and production expenses</b>	<b>30,519,750</b>	<b>36,490,543</b>
<b>Operating income (loss)</b>	<b>757,984</b>	<b>(3,387,278)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Loss on retirement of capital assets	(3,147,815)	-
Interest expense	(506,873)	(695,573)
Investment earnings	12,922	9,844
<b>Total nonoperating expenses</b>	<b>(3,641,766)</b>	<b>(685,729)</b>
<b>Capital grants and contributions</b>	<b>1,498,989</b>	<b>29,238</b>
<b>Decrease in net position</b>	<b>(1,384,793)</b>	<b>(4,043,769)</b>
<b>Net position, beginning of year</b>	<b>14,751,587</b>	<b>52,888,509</b>
<b>Change in accounting principle</b>	<b>-</b>	<b>(34,093,153)</b>
<b>Net position, beginning of year, as restated</b>	<b>14,751,587</b>	<b>18,795,356</b>
<b>Net position, end of year</b>	<b>\$ 13,366,794</b>	<b>\$ 14,751,587</b>

*See accompanying notes.*

# Water System of the Virgin Islands Water and Power Authority

## Statements of Cash Flows

<i>Years Ended June 30,</i>	<b>2016</b>	<b>2015</b>
<b>Operating Activities</b>		
Receipts from customers	\$ 32,854,064	\$ 28,516,085
Payments to suppliers	(22,735,338)	(18,352,537)
Payments to employees	(4,038,218)	(4,405,090)
Net cash provided by operating activities	6,080,508	5,758,458
<b>Capital and Related Financing Activities</b>		
Principal payments on long-term debt	(3,295,000)	(3,125,000)
Interest paid on long-term debt	(575,603)	(759,629)
Acquisition and construction of capital assets	(3,833,493)	(1,960,176)
Capital grants received	1,498,989	14,492
Net cash used in capital and related financing activities	(6,205,107)	(5,830,313)
<b>Investing Activities</b>		
Interest received	12,922	9,844
Purchases, sales, and maturities of investments, net	(65,600)	(86,646)
Net cash used in investing activities	(52,678)	(76,802)
Net change in cash and cash equivalents	(177,277)	(148,657)
Cash and cash equivalents, beginning of year	6,376,867	6,525,524
Cash and cash equivalents, end of year	\$ 6,199,590	\$ 6,376,867

*Continued on next page.*

# Water System of the Virgin Islands Water and Power Authority

## Statements of Cash Flows (continued)

<i>Years Ended June 30,</i>	2016	2015
<b>Cash and cash equivalents</b>		
Unrestricted	\$ 4,079,961	\$ 4,259,142
Restricted	2,119,629	2,117,725
	<b>\$ 6,199,590</b>	<b>\$ 6,376,867</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash     Provided by Operating Activities</b>		
Operating income (loss)	\$ 757,984	\$ (3,387,278)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	3,331,812	3,596,931
Amortization of deferred property-related gains	(187,508)	(187,509)
Changes in operating assets and liabilities:		
Accounts receivable, net	1,576,331	(1,521,602)
Inventories	166,337	(186,407)
Prepayments and other current assets	(213,752)	440,682
Fuel costs recoverable	(585,086)	(8,743)
Due to Electric System	(660,407)	162,488
Accounts payable and accrued liabilities	362,362	429,080
Net pension liability	8,017,647	45,026,931
Deferred outflows of resources	(10,541,801)	(5,419,508)
Deferred inflows of resources	3,263,089	-
Change in accounting principle	-	(34,093,153)
Accrued OPEB liability	793,500	906,544
<b>Net cash provided by operating activities</b>	<b>\$ 6,080,508</b>	<b>\$ 5,758,458</b>

*See accompanying notes.*

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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

#### Organization and Operation

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

The Water System of the Authority accounts for all activities associated with the production and distribution of water to customers. The accompanying financial statements include only the financial activities of the Water System major fund.

#### Measurement Focus and Basis of Accounting

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

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

#### Rates and Regulation

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

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred or items that will be credited to customers in future periods and for the Authority include unamortized property-related gains. At June 30, 2016 and 2015, the fuel costs recoverable balances were \$748 thousand and \$163 thousand, respectively, which represent an under-collection of actual fuel costs incurred and not yet recovered through the Levelized Energy Adjustment Clause (LEAC). Regulatory liabilities consist of property-related gains, net of \$1.1 million and \$1.2 million as of June 30, 2016 and 2015, respectively, which are being amortized over future periods as approved by the Commission.

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

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

### Cash and Cash Equivalents

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

### Inventories

Water 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 water production is charged to expense as consumed through allocation of costs from the Electric System.

### 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.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### Capital Assets

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

Depreciation of capital assets is computed using the straight-line method over estimated service lives ranging from 3 to 100 years. Depreciation expense is net of the property-related gain amortization of \$188,000 for each of the years ended June 30, 2016 and 2015. Depreciation, net of property-related gain amortization, was equivalent to 2.9% and 2.4% 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 Water System's financial statements. As a result, effective July 1, 2013, estimates of the useful lives were changed to better reflect the estimated periods during which these assets will remain in service.

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 Water System recorded a loss on retirement of capital assets of \$3.1 million to reflect the lower of its carrying value or fair value.

### Property-Related Gains

Insurance and Federal Emergency Management Agency (FEMA) proceeds exceeded the net book value of assets retired as a result of damages sustained from Hurricane Hugo in September 1989 and Hurricane Marilyn in September 1995. To account for these excess proceeds, the Authority recorded property-related gains to be recovered in future periods as mandated by the Virgin Islands Public Services Commission. The property-related gains are being amortized and offset against depreciation expense over the estimated useful lives of the replacement assets. At June 30, 2016 and 2015, property-related gains, net of accumulated amortization, totaled \$1.1 million and \$1.2 million, respectively.

### Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources 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.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### Compensated Absences

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

### Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans, as well as additions to and deductions from the pension plan fiduciary net position have been determined on the same basis as they are reported in the financial statements of the Government of the Virgin Islands Employees' Retirement System (GERS). Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Also see Note 8.

### Due to Electric System

As of June 30, 2016 and 2015, the Water System had a payable due to the Electric System in the amount of \$8.8 million and \$9.4 million, respectively, as a result of intersystem transfers. These intersystem balances are noninterest bearing and have no set repayment date. The Authority has classified \$8.8 million and \$9.4 million as of June 30, 2016 and 2015, respectively, as noncurrent because the Electric System will not require that amount to be paid within one year.

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



# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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If the amount recovered through rates exceeds actual fuel costs, the Water System records fuel costs refundable as a regulatory liability, plus interest at 8.75%, for amounts to be refunded through future rates over the following six-month period. If the amount recovered through rates is less than the actual fuel costs, the Water System records fuel costs recoverable as a regulatory asset, without interest, for amounts to be collected through future rates, generally over the following six-month period. As of June 30, 2016, the amount of the fuel costs recoverable that will not be recovered in 2017 is classified as long-term.

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

### Capital Grants and Contributions

The United States Government and the Virgin Islands Government appropriate and make available to the Authority grant funds for the construction and improvement of water production and distribution facilities. The Water System also receives capital contributions from customers (nongovernment) for construction and improvement of the facilities. For the years ended June 30, 2016 and 2015, the Water System recognized as capital grants \$110 thousand and \$9 thousand, respectively, from the U.S. Government and \$1.4 million and \$20 thousand, respectively, from the Virgin Islands Government.

### Cost Allocation

The Water and Electric Systems share administrative and operating personnel. Payroll and a substantial portion of other operating expenses are initially incurred by the Electric System and are subsequently allocated to the Water System based on labor costs and hours. The operating costs allocated to the Water System for the years ended June 30, 2016 and 2015, amounted to \$5.7 million and \$5.4 million, respectively.

Expenses incurred for common or integrated facilities are allocated between the systems using an engineering study that is based on monthly production statistics and the Water System's power consumption. Fuel costs are allocated to the Water System based on this study and, as such, the Water System does not have any fuel inventory. 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.

### 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.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### Use of Estimates

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

### New Accounting Pronouncements

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

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

Renewal and Replacement Fund - Amounts maintained in the Renewal and Replacement Fund are to be utilized for certain projects, extraordinary operation, maintenance, renewal or replacement costs and payment of certain contingencies. The Renewal and Replacement Fund is held by the bond trustee.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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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 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.

Water System revenues and all funds established by the Bond Resolution are pledged for payment of bond principal and interest. The trustee funds as outlined above include the Renewal and Replacement Fund, the Debt Service Fund, and the Debt Service Reserve Fund, and 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.

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

	2016	2015
Rehabilitation Fund	\$ 514,091	\$ 512,973
Construction Fund	154,910	154,558
Renewal and Replacement Fund	750,695	750,261
Debt Service Fund	3,672,711	3,894,150
Debt Service Reserve Fund	3,871,097	3,584,059
Line Loss Fund	699,933	699,933
	<b>\$ 9,663,437</b>	<b>\$ 9,595,933</b>

### 3. Deposits and Investments

In accordance with its policies and the 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 both June 30, 2016 and 2015, the Water System had approximately \$7.5 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 Water System held certificate of deposits of approximately \$3.9 million and \$4.0 million as of June 30, 2016 and 2015, respectively, with a maturity date of less than a year. Cash deposits were \$2.3 million and \$2.4 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.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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

As of June 30, 2016, 55% of the Water System's cash and investments are in U.S. Treasury Funds, 28% are invested in certificate of deposits, and 17% are in cash deposits. As of June 30, 2015, 54% of the Water System's cash and investments are in U.S. Government agency funds, 29% are invested in certificate of deposits, and 17% 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 potential amounts held in excess of the FDIC limits for the Water System were \$2,687,719 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 the Water System's investments were held in the name of Bank of New York Mellon, as Trustee for the Authority.

### Fair Value Measurements

The Authority categorizes the fair market measurements of its investments 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.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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.

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

	Level 1	Level 2	Level 3
U.S. Treasury fund	\$ 7,543,808	\$ -	\$ -

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

	Level 1	Level 2	Level 3
U.S. Treasury fund	\$ 7,478,208	\$ -	\$ -

### 4. Accounts Receivable

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

	2016	2015
Customers	\$ 6,768,791	\$ 7,039,155
Other	3,106	267,713
Less allowance for doubtful accounts	(5,976,668)	(6,337,648)
Customers and other, net	795,229	929,220
Virgin Islands Government	5,952,403	7,220,565
Less allowance for doubtful accounts	(57,355)	(43,588)
Virgin Islands Government, net	5,895,048	7,176,977
Unbilled revenues	1,407,504	1,567,915
Accounts receivable, net	\$ 8,097,781	\$ 9,674,112

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.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

As of June 30, 2016 and 2015, the Authority has classified Government accounts receivable of approximately \$2.4 million and \$3.0 million, respectively, as noncurrent because these balances are expected to take longer than one year from the balance sheet dates to be paid by the various government agencies.

### 5. Advances on Grants

The Authority received advance grant funding from the Government to improve the water distribution system and to extend the water lines to Anna's Retreat and Smith Bay for the purpose of making potable water available to customers on the eastern end of St. Thomas. No amounts were expended in 2016 and 2015.

### 6. 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	\$ 184,225	\$ -	\$ -	\$ -	\$ 184,225
Construction in progress	3,673,698	2,907,016	-	(2,499,924)	4,080,790
Depreciable assets:					
Utility plant	145,654,623	929,166	(39,932,198)	2,499,924	109,151,515
Total at historical cost	149,512,546	3,836,182	(39,932,198)	-	113,416,530
Less accumulated depreciation	83,339,045	3,331,812	(36,781,694)	-	49,889,163
Property-related gains	1,238,762	-	(187,508)	-	1,051,254
Total deductions	84,577,807	3,331,812	(36,969,202)	-	50,940,417
Capital assets, net	\$ 64,934,739	\$ 504,370	\$ (2,962,996)	\$ -	\$ 62,476,113

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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	\$ 184,225	\$ -	\$ -	\$ -	\$ 184,225
Construction in progress	2,540,867	1,439,320	-	(306,489)	3,673,698
Depreciable assets:					
Utility plant	144,827,277	520,857	-	306,489	145,654,623
Total at historical cost	147,552,369	1,960,177	-	-	149,512,546
Less accumulated depreciation	79,742,114	3,596,931	-	-	83,339,045
Property-related gains	1,426,271	-	(187,509)	-	1,238,762
Total deductions	81,168,385	3,596,931	(187,509)	-	84,577,807
Capital assets, net	\$ 66,383,985	\$ 5,557,108	\$ (187,509)	\$ -	\$ 64,934,739

### 7. Lines of Credit

The Authority has available bank lines of credit of \$2.5 million for the Water System. Interest on amounts borrowed is payable quarterly at a variable interest rate of prime plus 1.0%, London Inter-Bank Offer Rate (LIBOR) plus 1.75%, or 175 basis points above the interest rate on three-year United States Government treasury notes. The Authority has the option to select the variable interest rate to utilize for any borrowings on these notes. At both June 30, 2016 and 2015, there was \$2.5 million outstanding under the lines of credit for the Water System. The lines have a maturity of June 2017.

### 8. 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.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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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.



# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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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 of 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 Water System's allocated share of employer contribution for the same period was \$0.8 million and \$0.9 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, and the allocation to the Water system was \$53.0 million and \$45.0 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.

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, \$1.2 million and \$5.5 million was allocated to the Water System's pension expense, respectively.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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 Water 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	\$ 9,834,807	\$ -
Net difference between projected and actual earnings on pension plan investments	990,306	-
Difference between expected and actual experience	1,346,789	-
Changes in proportionate share	3,154,541	3,263,089
Contributions made subsequent to measurement date	634,866	-
	<b>\$ 15,961,309</b>	<b>\$ 3,263,089</b>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 2,819,228	\$ -
Net difference between projected and actual earnings on pension plan investments	322,273	-
Difference between expected and actual experience	419,252	-
Changes in proportionate share	1,065,009	-
Contributions made subsequent to measurement date	793,748	-
	<b>\$ 5,419,508</b>	<b>\$ -</b>

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	\$ 2,906,955
2018	2,906,955
2019	2,906,955
2020	1,765,204
2021	1,577,286

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

### 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.

<i>September 30,</i>	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%

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### 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 Water 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 Water System's allocation of the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% 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%
\$ 61,959,125	\$ 53,044,578	\$ 45,632,264

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%
\$ 52,281,231	\$ 45,026,931	\$ 38,893,319

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

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

### 9. Long-Term Liabilities

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

	2016	2015
1998 Series, Water System Revenue and Refunding Bonds, interest payable semiannually at 5.5%, maturing semiannually through July 1, 2017. Interest is paid in January and July.	\$ 7,140,000	\$ 10,435,000
Less current installments	(3,475,000)	(3,295,000)
Long-term debt, excluding current installments	\$ 3,665,000	\$ 7,140,000

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

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 10,435,000	\$ -	\$ (3,295,000)	\$ 7,140,000	\$ 3,475,000
Unamortized discount	(43,764)	-	21,882	(21,882)	-
OPEB liability	8,928,308	793,500	-	9,721,808	-
Total long-term liabilities	\$ 19,319,544	\$ 793,500	\$ (3,273,118)	\$ 16,839,926	\$ 3,475,000

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

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 13,560,000	\$ -	\$ (3,125,000)	\$ 10,435,000	\$ 3,295,000
Unamortized discount	(65,647)	-	21,882	(43,764)	-
OPEB liability	8,021,764	906,544	-	8,928,308	-
Total long-term liabilities	\$ 21,516,117	\$ 906,544	\$ (3,103,118)	\$ 19,319,544	\$ 3,295,000

Future debt service requirements to maturity as of June 30, 2016, on the revenue bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2017	\$ 3,475,000	\$ 392,700	\$ 3,867,700
2018	3,665,000	201,575	3,866,575
	\$ 7,140,000	\$ 594,275	\$ 7,734,275

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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In December 1998, the Authority issued \$44.2 million principal amount of 1998 Series Water System Revenue and Refunding Bonds. The proceeds from the bonds were used to repay the 1990 Series A Water System Revenue Bonds at a redemption price of 100% and to refund the 1992 Series B Water System Revenue Bonds, repay outstanding lines of credit balances, pay underwriters' costs, provide funding for a Renewal and Replacement Reserve Fund, and to purchase obligations of the United States government, which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining principal amount of the 1992 Series B Bonds and have since been paid off.

Payment of principal and interest on the 1998 Series Bonds is secured by an irrevocable lien on the Authority's net revenues (exclusive of any funds that may be established pursuant to the Bond Resolution for certain other specified purposes) and funds established under the Bond Resolution, including investment securities. To provide additional security, the Authority has conveyed to the bond trustee a subordinate lien and security interest in the Water System General Fund. The Authority is also required to make deposits in a debt service reserve fund in accordance with the Bond Resolution.

The 1998 Series Bonds maturing on or after July 1, 2010, are subject to redemption prior to their stated maturity date, at the option of the Authority, as a whole or in part at any time. The Water System Revenue Bonds are subject to mandatory redemption if (1) any significant part of the Water System shall be damaged, destroyed, taken, or condemned or (2) any for-profit, nongovernmental investor shall acquire an ownership interest in some or all assets of the Authority.

The Authority's Bond Resolution requires the Authority under Section 606(1), for as long as the bonds are outstanding, to establish rates "... so that in each fiscal year the net water revenues shall at all times be at least 1.25 the aggregate debt service requirement for such fiscal year." For the years ended June 30, 2016 and 2015, the Authority's Debt Service Coverage ratio was 1.95 and 1.65, respectively. Section 606(2) of the Resolution provides that if the Authority fails to achieve such 1.25 coverage in a particular year, the Authority must "take whatever steps it can to produce the amount of net water 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 has no taxing power and its obligations are not debts of the Government or of the United States of America. However, the Government has agreed to guarantee the payments of the principal and interest on the 1998 Series bonds pursuant to the terms of the Guaranty Agreement by and between the Government, the Authority, and the Bank, which was authorized by the Legislature of the United States Virgin Islands Act No. 7028 (Section 7), 27<sup>th</sup> Legislature of the United States Virgin Islands.

## 10. Commitments and Contingencies

### Litigation

The Authority is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Water System's financial position, changes in financial position, or liquidity.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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

### Grant Funds

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 Water System's financial position or liquidity.

### Insurance Program

The Water 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 amount of settlements has not exceeded insurance coverage for each of the past two years.

### Construction Contracts

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

### Agreements with Seven Seas Corporation

The Authority has signed two agreements with Seven Seas Corporation to build, operate, and maintain two reverse osmosis facilities, one on St. Croix and one on St. Thomas, and sell the water from the facilities to the Water System. The agreements both have 20-year terms expiring through 2032. The amounts paid by the Water System to Seven Seas Corporation under the agreements were \$8.2 million and \$7.9 million for 2016 and 2015, respectively.

### Leases

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

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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### 11. 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 Water System did not incur any expenses related to this tax.

### 12. 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 8) 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 post-employment 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 Water System 2016 and 2015 share was \$9.7 million and \$8.9 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 the fiscal years 2016 and 2015 was \$7.8 million and \$9.5 million, respectively. Of this, Water System's share for fiscal years 2016 and 2015 was \$1.0 million and \$1.2 million, respectively.



# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

The Authority's ARC as of June 30, 2016 and 2015, was \$8.1 million and \$9.5 million, respectively. Of this, the Water System share as of June 30, 2016 and 2015 was \$1.0 million and \$1.2 million, respectively.

Description	2016	2015
Normal Cost (service cost for one year)	\$ 568,537	\$ 692,995
Amortization of Unfunded Actuarial Accrued Liability	462,218	547,221
Annual Required Contribution (ARC)	1,030,755	1,240,216
Interest on Net OPEB Obligation	357,375	189,076
Adjustment to ARC	(406,108)	(242,646)
Annual OPEB Cost	982,022	1,186,646
Contributions Made	(194,596)	(280,102)
Increase in Net OPEB Obligation	787,426	906,544
Net OPEB Obligation, beginning of year	8,928,308	8,021,764
Net OPEB Obligation, end of year	\$ 9,721,808	\$ 8,928,308

The Water 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
6/30/2014	\$ 1,036,582	\$ 116,099	11%	\$ 8,021,764
6/30/2015	\$ 1,230,510	\$ 280,102	23%	\$ 8,928,308
6/30/2016	\$ 982,022	\$ 194,596	20%	\$ 9,721,808

### 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.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

The funded status of the Water System's portion of the policy as of June 30, 2016 and 2015 was as follows:

	2016	2015
Actuarial Accrued Liability (a)	\$ 9,971,360	\$ 10,295,923
Actuarial Value of Plan Assets (b)	-	-
Unfunded Actuarial Accrued Liability (UAAL) ( c ) = (a-b)	\$ 9,971,360	\$ 10,295,923
Funded Ratio (b/a)	0%	0%
Covered Payroll (Active Plan Members) (d)	\$ 3,665,263	\$ 3,275,222
UAAL as a Percentage of covered payroll (c/d)	272%	314%

### 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.

### 13. 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 PSC for permanent base rates for the Water System. In summary, the Authority petitioned the PSC to approve a permanent Water System base rate increase to provide operating margins to (1) meet the debt service coverage target of 175% that has been recommended by the PSC, as well as the minimum 125% required coverage and (2) fund a portion of the Authority's high-priority capital needs for the Water System.

The permanent base rate increase of 9.2% is projected to increase annual Water System revenues by approximately \$1.93 million. The Petition seeks to have the relevant tariffs revised to increase base rates across-the-board and become effective July 1, 2016, for bills rendered on or after that date. The \$1.93 million revenue increase is equal to 6.3% of total Water System revenues, including revenues from LEAC and amounts billed to the Electric System.

# Water System of the Virgin Islands Water and Power Authority

## Notes to the Financial Statements

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On June 6, 2016, the Authority amended its petition for permanent rates. The amended petition resulted in lower requested rates compared to the original Petition. The revised Petition requested a permanent rate increase of 7.8% and is projected to increase annual Water System revenues by approximately \$1.68 million.

The Authority is awaiting a decision from the PSC on its request for an increase in permanent water rates.

### 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 Water System's financial statements for the year ended June 30, 2016.

Required  
Supplemental Information

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# Water 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/d)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2011	\$ -	\$ 11,872,003	\$ 11,872,003	0.00%	\$ 5,236,596	227%
7/1/2013	\$ -	\$ 10,295,923	\$ 10,295,923	0.00%	\$ 3,275,222	314%
7/1/2015	\$ -	\$ 9,971,360	\$ 9,971,360	0.00%	\$ 3,665,263	272%

# Water System of the Virgin Islands Water and Power Authority

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

<i>Fiscal Year</i>	2016	2015
Water System's proportion of the net pension liability	1.2924%	1.4591%
Water System's proportionate share of the net pension liability	\$ 53,044,578	\$ 45,026,931
Water System's covered-employee payroll	\$ 4,188,583	\$ 4,010,648
Water System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1266%	1123%
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).*

# Water System of the Virgin Islands Water and Power Authority

## Schedule of the System's Contributions

<i>Fiscal Year</i>	2016	2015
Actuarially required contributions	\$ 3,030,406	\$ 2,919,510
Contributions in relation to the actuarially required contributions	597,521	793,748
Contribution deficiency (excess)	\$ 2,432,885	\$ 2,125,762
Covered-employee payroll	\$ 3,665,263	\$ 4,010,648
Contributions as a percentage of covered-employee payroll	16.30%	19.79%

*This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the latest fiscal year.*

## Supplemental Schedule

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# Water System of the Virgin Islands Water and Power Authority

## Five-Year Comparative Summary of Operations (Unaudited)

<i>Years Ended June 30,</i>	2016	2015	2014	2013	2012
<b>Operating revenues:</b>					
Water sales to customers	\$ 12,651,258	\$ 11,437,836	\$ 10,794,675	\$ 13,387,276	\$ 11,519,827
Water sales to Virgin Islands					
Government	8,223,966	9,503,662	10,383,518	11,365,459	9,952,339
Fuel escalator revenues	9,759,747	11,332,551	10,343,859	13,014,619	14,147,853
Line Loss Surcharge	723,183	756,256	395,485	-	-
Bad debt (recovery) expense	(80,420)	72,960	(415,486)	(60,767)	(995,568)
<b>Total operating revenues</b>	<b>31,277,734</b>	<b>33,103,265</b>	<b>31,502,051</b>	<b>37,706,587</b>	<b>34,624,451</b>
<b>Operating and production expenses:</b>					
Production cost of water distributed	11,835,397	13,502,213	12,128,267	18,614,867	21,222,502
Operations and maintenance	8,886,167	13,212,720	7,944,279	7,700,506	7,370,192
Customer service	925,581	1,248,120	1,352,112	1,174,849	1,358,527
Administrative and general	5,728,301	5,118,068	5,099,855	4,474,508	4,238,017
Depreciation and amortization	3,144,304	3,409,422	3,413,191	4,097,298	3,951,484
<b>Total operating and production expenses</b>	<b>30,519,750</b>	<b>36,490,543</b>	<b>29,937,704</b>	<b>36,062,028</b>	<b>38,140,722</b>
<b>Operating income (loss)</b>	<b>757,984</b>	<b>(3,387,278)</b>	<b>1,564,347</b>	<b>1,644,559</b>	<b>(3,516,271)</b>
<b>Nonoperating revenues (expenses):</b>					
Loss on retirement of capital assets	(3,147,815)	-	-	-	-
Interest expense	(506,873)	(695,573)	(864,360)	(1,364,441)	(1,686,853)
Investment earnings	12,922	9,844	28,546	26,992	150,549
<b>Total nonoperating expense</b>	<b>(3,641,766)</b>	<b>(685,729)</b>	<b>(835,814)</b>	<b>(1,337,449)</b>	<b>(1,536,304)</b>
<b>Capital grants and contributions</b>	<b>1,498,989</b>	<b>29,238</b>	<b>3,007,146</b>	<b>3,185,475</b>	<b>5,946,814</b>
<b>(Decrease) increase in net position</b>	<b>\$ (1,384,793)</b>	<b>\$ (4,043,769)</b>	<b>\$ 3,735,679</b>	<b>\$ 3,492,585</b>	<b>\$ 894,239</b>
<b>Water revenues:</b>					
Residential	\$ 4,548,624	\$ 4,354,561	\$ 4,193,223	\$ 4,994,669	\$ 4,462,487
Commercial	7,072,209	6,311,550	6,089,829	7,626,991	6,416,525
Virgin Islands Government	2,829,962	3,684,954	4,356,682	4,091,025	3,522,520
Other governments	5,394,004	5,818,708	6,026,836	7,274,434	6,429,819
Standpipe	547,669	292,751	91,154	240,724	214,275
Fuel escalator revenues	9,759,747	11,332,551	10,343,859	13,014,619	14,147,853
Line Loss Surcharge	723,183	756,256	395,485	-	-
Other	482,757	478,974	420,469	524,894	426,540
<b>Total</b>	<b>\$ 31,358,155</b>	<b>\$ 33,030,305</b>	<b>\$ 31,917,537</b>	<b>\$ 37,767,356</b>	<b>\$ 35,620,019</b>
<b>Water sales (gallons) (in thousands):</b>					
Residential	240,443	216,134	207,681	238,600	236,320
Commercial	286,867	262,335	400,747	465,970	424,749
Virgin Islands Government	133,699	185,874	208,866	179,361	177,719
Other governments	369,202	285,783	288,051	336,907	325,340
Standpipe	29,992	15,601	5,055	11,384	11,536
<b>Total</b>	<b>1,060,203</b>	<b>965,727</b>	<b>1,110,400</b>	<b>1,232,222</b>	<b>1,175,665</b>
<b>Number of customers at year-end</b>	<b>12,441</b>	<b>12,441</b>	<b>12,311</b>	<b>12,329</b>	<b>12,205</b>