



Water System of the Virgin Islands Water and Power Authority

**Management's Discussion and Analysis,
Financial Statements (with Independent
Auditor's Report Thereon), Required
Supplementary Information, and
Supplementary Schedule (Unaudited)
Years Ended June 30, 2017 and 2016**

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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, 2017 and 2016, 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, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, these financial statements present only the Water System and do not purport to, and do not present fairly the financial position of the Authority, as of June 30, 2017 and 2016, the respective changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, 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 pension contributions on pages 6 through 11 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the Water System's basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information - Supplementary Schedule

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water System's internal control over financial reporting and compliance.

December 7, 2018

BDO USA, LLP

Management's Discussion and Analysis

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

The Virgin Islands Water and Power Authority (the Authority) owns, operates, and maintains a water production and distribution system (the Water System) and an electric generation and distribution system (the Electric System), which are separately financed and require separate accounting and reporting. Each of these systems is accounted for as a separate enterprise fund. As management of the Authority, we offer readers of the Water System financial statements this discussion and analysis of the financial activities of the Water System for the years ended June 30, 2017 and 2016, with selected comparative information for the year ended June 30, 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, 2017). The Authority also provides electric service to approximately 55,000 customers (as of June 30, 2017). The Water System's rates are under the jurisdiction of the Virgin Islands Public Services Commission (PSC or the Commission), unlike many other municipal systems. These rates are intended to provide revenues to recover operating and maintenance expenses, funds for debt service coverage requirements, and funds for working capital and capital expenses. The Authority does not use rate base or rate of return principles for setting rates.

Financial Highlights - 2017

The Water System's net position increased by \$3.4 million, or 25% as a result of 2017 operations. There was \$31.2 million in total operating revenues and \$2.8 million in capital grant contributions, offset by \$30.4 million in operating and production expenses and \$323 thousand in total non-operating expenses.

- The Water System's fuel costs recoverable balance decreased by \$154 thousand or 21% as the LEAC factors approved by the PSC still remained inadequate to recover the full cost of fuel in the current period.
- During 2017, the Water System's total operating revenues decreased by \$71 thousand, or a less than 1% decrease. The decrease is attributable mainly to decreases in fuel escalator revenues of \$788 thousand, increase in bad debt expense of \$321 thousand, offset by an increase in Water sales of \$1.0 million.
- Operating and production expenses decreased from \$30.5 million to \$30.4 million, a 1% decrease compared to the prior year. This was due to an increase of \$2.7 million in operations and maintenance expenses offset by decreases of \$699 thousand in production cost of water distributed, decrease of \$2.0 million in depreciation and amortization, and a decrease of \$311 thousand in administrative and general expenses.

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

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 Levelized Energy Adjustment Clause (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.

Overview of the Financial Statements

Statement of Net Position

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

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

Table 1
Condensed Statements of Net Position

<i>As of June 30,</i>	2017	2016	2015
Current assets	\$ 12,607,908	\$ 12,069,644	\$ 12,553,366
Restricted assets	9,701,851	9,663,437	9,595,933
Other non-current assets	3,575,436	2,375,320	3,014,609
Capital assets	64,828,724	62,476,113	64,934,739
Deferred outflows of resources	16,804,499	15,961,309	5,419,508
Total assets and deferred outflows of resources	\$ 107,518,418	\$ 102,545,823	\$ 95,518,155
Long-term liabilities	\$ 73,907,024	\$ 75,162,827	\$ 70,465,205
Other liabilities	11,668,113	10,753,113	10,301,363
Deferred inflows of resources	5,186,400	3,263,089	-
Total liabilities and deferred inflows of resources	90,761,537	89,179,029	80,766,568
Net investment in capital assets	61,738,714	56,533,517	56,170,321
Restricted	9,026,073	8,921,904	8,818,702
Unrestricted	(54,007,906)	(52,088,627)	(50,237,436)
Total net position	16,756,881	13,366,794	14,751,587
Total liabilities, deferred inflows of resources, and net position	\$ 107,518,418	\$ 102,545,823	\$ 95,518,155

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

At June 30, 2017, the Water System had total assets and deferred outflows of resources of \$107.5 million of which \$64.8 million or 60% represents net capital assets.

A significant change to the Water System's financial statements related to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, in 2015, which resulted in the restatement of beginning net position to record beginning net pension liability and beginning deferred outflows. At June 30, 2017 and 2016, the Water System had a net pension liability of \$56.3 and \$53.0 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>	2017	2016	2015
Base revenues	\$ 21,852,730	\$ 20,875,224	\$ 20,941,498
Fuel escalator revenues	8,971,868	9,759,747	11,332,551
Line loss Surcharge	783,003	723,183	756,256
Investment earnings	33,029	12,922	9,844
Bad debt (expense) recovery	(400,928)	(80,420)	72,960
Total revenues	31,239,702	31,290,656	33,113,109
Production cost of water distributed	11,136,598	11,835,397	13,502,213
Operating expenses, excluding production, depreciation, and amortization	18,017,386	15,540,049	19,578,908
Depreciation, net of amortization	1,198,779	3,144,304	3,409,422
Loss on retirement of capital assets	-	3,147,815	-
Interest expense	323,221	506,873	695,573
Total expenses	30,675,984	34,174,438	37,186,116
Income (loss) before capital grants and contributions	563,718	(2,883,782)	(4,073,007)
Capital grants and contributions	2,826,369	1,498,989	29,238
Increase (decrease) in net position	3,390,087	(1,384,793)	(4,043,769)
Net position, beginning of year	13,366,794	14,751,587	18,795,356*
Net position, end of year	\$ 16,756,881	\$ 13,366,794	\$ 14,751,587

*As restated for implementation of GASB Statement No. 68

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

The Water System's net position increased by \$3.4 million during the fiscal year ended June 30, 2017. Key elements of the 2017 increase are as follows:

- Operating revenues have been consistent year to year with no significant change. Operating expenses have decreased by \$3.1 million as there was no recognition of retirement of capital assets in 2017 when compared to the retirement of capital assets of \$3.1 million in 2016.
- Total production expenses have decreased by \$700 thousand as compared to the prior year.

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

- Fuel escalator revenues reflect an increase of 1.6 million or 14% in fiscal year 2016 compared to fiscal year 2015. This was mainly due to an overall increase 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.

Capital Asset and Debt Administration

Capital Assets

The Water System's capital assets as of June 30, 2017, amounted to \$64.8 million (net of accumulated depreciation and property-related gains), which reflected an increase of \$2.4 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 capital assets net of accumulated depreciation and property-related gains.

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

<i>June 30,</i>	2017	2016	2015
Land	\$ 184,225	\$ 184,225	\$ 184,225
Utility plant in service	54,045,096	53,497,029	60,089,660
Buildings and fixed equipment	5,884,535	4,369,550	441,528
Furniture, fixtures, and equipment	596,895	344,519	545,628
Construction in progress	4,117,973	4,080,790	3,673,698
Net utility plant	\$ 64,828,724	\$ 62,476,113	\$ 64,934,739

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

The major projects completed in fiscal year 2017 were the Christiansted Waterline Upgrade (Phase 1) for \$398 thousand and Estate Contant Waterline Rehabilitation for \$1.4 million.

The Authority's fiscal year 2018 capital budget includes investing \$17.5 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

In fiscal year 2017, the Water System decreased its long-term debt by 49% or \$3.6 million, through scheduled maturities and amortization. Table 4 provides the detail of long-term debt.

Table 4
Long-Term Debt

<i>June 30,</i>	2017	2016	2015
Revenue bonds	\$ 3,665,000	\$ 7,140,000	\$ 10,435,000
Less unamortized bond discount	-	(21,882)	(43,764)
Total	\$ 3,665,000	\$ 7,118,118	\$ 10,391,236

The Authority's ability to incur long-term indebtedness is capped by Virgin Islands statute at \$750 million for the Electric and Water Systems combined. As of June 30, 2017, combined long-term debt amounts to approximately \$422.8 million.

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

Requests for Information

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

Financial Statements

Water System of the Virgin Islands Water and Power Authority

Statements of Net Position

<i>June 30,</i>	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,227,866	\$ 4,079,961
Accounts receivable:		
Customers and other, net	693,943	795,229
Virgin Islands Government, net	3,289,906	2,576,938
Grants receivable	-	942,790
Fuel costs recoverable	593,385	747,694
Unbilled revenues	1,120,220	1,407,504
Inventories:		
Water	275,165	310,458
Materials and supplies	633,682	542,042
Prepayments and other current assets	773,741	667,028
Total current assets	12,607,908	12,069,644
Restricted assets:		
Cash and cash equivalents	2,043,522	2,119,629
Investments	7,658,329	7,543,808
Total restricted assets	9,701,851	9,663,437
Other noncurrent assets:		
Virgin Islands Government accounts receivable, net	3,575,436	2,375,320
Capital assets:		
Utility plant in service	112,849,947	109,335,740
Less accumulated depreciation	(51,275,451)	(49,889,163)
Property-related gains, net	(863,745)	(1,051,254)
Net utility plant in service	60,710,751	58,395,323
Construction in progress	4,117,973	4,080,790
Net capital assets	64,828,724	62,476,113
Deferred Outflows of Resources		
Pension related outflows	16,804,499	15,961,309
Total assets and deferred outflows of resources	\$ 107,518,418	\$ 102,545,823

Continued on next page.

Water System of the Virgin Islands Water and Power Authority

Statements of Net Position (continued)

<i>June 30,</i>	2017	2016
Liabilities, Deferred Inflows of Resources, and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,402,326	\$ 4,581,763
Lines of credit	2,500,000	2,500,000
Total current liabilities	7,902,326	7,081,763
Liabilities payable from restricted assets:		
Current installments of long-term debt	3,665,000	3,475,000
Accrued interest payable	100,787	196,350
Total liabilities payable from restricted assets	3,765,787	3,671,350
Long-term debt:		
Water System revenue bonds, excluding current installments	-	3,665,000
Unamortized bond discount	-	(21,882)
Total long-term debt	-	3,643,118
Long-term liabilities:		
Net pension liability	56,283,182	53,044,578
Net OPEB liability	9,956,963	9,721,808
Due to Electric System	7,666,879	8,753,323
Total long-term liabilities	73,907,024	71,519,709
Total liabilities	85,575,137	85,915,940
Deferred inflows of resources:		
Pension related inflows	5,186,400	3,263,089
Net position:		
Net investment in capital assets	61,738,714	56,533,517
Restricted	9,026,073	8,921,904
Unrestricted (deficit)	(54,007,906)	(52,088,627)
Total net position	16,756,881	13,366,794
Total liabilities, deferred inflows of resources, and net position	\$ 107,518,418	\$ 102,545,823

See accompanying notes to the financial statements.

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>	2017	2016
Operating Revenues		
Water sales to customers	\$11,676,391	\$ 12,168,501
Water sales to Virgin Islands Government	9,729,815	8,223,966
Fuel escalator revenues	8,971,868	9,759,747
Line loss surcharge	783,003	723,183
Other operating revenues	446,524	482,757
Bad debt expense	(400,928)	(80,420)
Total operating revenues	31,206,673	31,277,734
Operating and Production Expenses		
Production cost of water distributed	11,136,598	11,835,397
Operations and maintenance	11,623,441	8,886,167
Customer service	976,983	925,581
Administrative and general	5,416,962	5,728,301
Depreciation, net of amortization	1,198,779	3,144,304
Total operating and production expenses	30,352,763	30,519,750
Operating income	853,910	757,984
Nonoperating Revenues (Expenses)		
Loss on retirement of capital assets	-	(3,147,815)
Interest expense	(323,221)	(506,873)
Investment earnings	33,029	12,922
Total nonoperating expenses	(290,192)	(3,641,766)
Capital grants and contributions	2,826,369	1,498,989
Increase (decrease) in net position	3,390,087	(1,384,793)
Net position, beginning of year	13,366,794	14,751,587
Net position, end of year	\$16,756,881	\$ 13,366,794

See accompanying notes to the financial statements.

Water System of the Virgin Islands Water and Power Authority

Statements of Cash Flows

<i>Years Ended June 30,</i>	2017	2016
Operating Activities		
Receipts from customers	\$ 29,682,159	\$ 33,633,492
Payments to suppliers	(20,469,726)	(22,735,338)
Payments to employees	(3,862,344)	(4,038,218)
Net cash provided by operating activities	5,350,089	6,859,936
Capital and Related Financing Activities		
Principal paid on long-term debt	(3,475,000)	(3,295,000)
Interest paid on long-term debt	(396,902)	(575,603)
Acquisition and construction of capital assets	(3,551,390)	(3,833,493)
Capital grants received	3,226,493	719,561
Net cash used in capital and related financing activities	(4,196,799)	(6,984,535)
Investing Activities		
Interest received	33,029	12,922
Purchases, sales, and maturities of investments, net	(114,521)	(65,600)
Net cash used in investing activities	(81,492)	(52,678)
Net change in cash and cash equivalents	1,071,798	(177,277)
Cash and cash equivalents, beginning of year	6,199,590	6,376,867
Cash and cash equivalents, end of year	\$ 7,271,388	\$ 6,199,590

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>	2017	2016
Cash and cash equivalents		
Unrestricted	\$ 5,227,866	\$ 4,079,961
Restricted	2,043,522	2,119,629
	\$ 7,271,388	\$ 6,199,590
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 853,910	\$ 757,984
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,386,288	3,331,812
Amortization of deferred property-related gains	(187,509)	(187,508)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,524,514)	2,355,759
Inventories	(56,347)	166,337
Prepayments and other current assets	(106,713)	(213,752)
Fuel costs recoverable	154,309	(585,086)
Due to Electric System	(1,086,444)	(660,407)
Accounts payable and accrued liabilities	1,363,229	362,362
Net pension liability	3,238,604	8,017,647
Deferred outflows of resources	(843,190)	(10,541,801)
Deferred inflows of resources	1,923,311	3,263,089
Accrued OPEB liability	235,155	793,500
Net cash provided by operating activities	\$ 5,350,089	\$ 6,859,936

See accompanying notes to the financial statements.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

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

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

Measurement Focus and Basis of Accounting

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

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

Rates and Regulation

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

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

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

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

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

At June 30, 2017 and 2016, the fuel costs recoverable balances were \$593 thousand and \$748 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 accumulated amortization, of \$864 thousand and \$1.1 million as of June 30, 2017 and 2016, respectively, which are being amortized over future periods as approved by the Commission.

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

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

Cash and Cash Equivalents

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

Inventories

Water, materials, and supplies inventories are stated at cost using the weighted-average unit cost method, which approximates the first-in, first-out method. Obsolete and unusable inventory is reduced to estimated salvage value. The cost of fuel oil used for water production is charged to expense as consumed through allocation of costs from the Electric System.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Investments

Investments are reported at fair value in the accompanying statements of net position. All changes in the fair value of investments are recognized as gains or losses in the statements of revenues, expenses, and changes in net position.

Capital Assets

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

Depreciation of capital assets is computed using the straight-line method over estimated service lives ranging from 3 to 100 years. Depreciation expense is net of the property-related gain amortization of \$188 thousand for each of the years ended June 30, 2017 and 2016. Depreciation, net of property-related gain amortization, was equivalent to 1.06% and 2.9% of average depreciable property for the years ended June 30, 2017 and 2016, respectively.

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

The Authority also reviews the carrying value of its capital assets to determine if circumstances exist indicating impairment. If facts or circumstances support the possibility of impairment, management follows the guidance in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If impairment is indicated, an adjustment is made to the carrying value of the capital assets. As such, the Water System recorded a loss on retirement of capital assets of \$3.1 million for the year ended June 30, 2016, to reflect the lower of its carrying value or fair value. There were no such losses for the year ended June 30, 2017.

Property-Related Gains

Insurance and Federal Emergency Management Agency (FEMA) proceeds exceeded the net book value of assets retired as a result of damages sustained from Hurricane Hugo in September 1989 and Hurricane Marilyn in September 1995. To account for these excess proceeds, the Authority recorded property-related gains to be recovered in future periods as mandated by the Commission. The property-related gains are being amortized and offset against depreciation expense over the estimated useful lives of the replacement assets. At June 30, 2017 and 2016, property-related gains, net of accumulated amortization, totaled \$864 thousand and \$1.1 million, respectively.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Deferred Outflow of Resources

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

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 of the Virgin Islands 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 GERS. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Also see Note 9.

Due to Electric System

As of June 30, 2017 and 2016, respectively, the Water System had a payable due to the Electric System in the amount of \$7.7 million and \$8.8 million, respectively, as a result of intersystem transfers. These intersystem balances are noninterest bearing and have no set repayment date. The Authority has classified \$7.7 and \$8.8 million as of June 30, 2017 and 2016, respectively, as noncurrent because the Electric System will not require that amount to be paid within one year.

Deferred Inflows Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources for the Water System consist of the unamortized portion of the net differences between projected and actual earnings on pension plan 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.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

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 six months, the Commission establishes a LEAC rate that is designed to true-up the fuel costs recovered through the Water System's base rates.

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

The Water System distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering water, in connection with the Water System's principal ongoing operations. 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 Authority also receives capital contributions from customers (nongovernment) for construction and improvement of the facilities. The Authority maintains ownership and operation of the facilities. For the years ended June 30, 2017 and 2016, the Water System recognized capital grants of \$2.3 million and \$1.4 million, respectively, from the United States Government and \$561 thousand and \$110 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, 2017 and 2016, amounted to \$5.5 million and \$5.7 million, respectively. Expenses incurred for common or integrated facilities are allocated between the systems using an engineering study that is based on monthly production statistics and the Water System's power consumption. The production costs allocated to the Water System for the years ended June 30, 2017 and 2016, amounted to \$3.8 million and \$4.6 million, respectively. Fuel costs are also allocated to the Water System based on this study and, as such, the Water System does not have any fuel inventory.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Commitments and Contingencies

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

Use of Estimates

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 June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces GASB Statements No. 43 and No. 57 and addresses reporting for state and local government other post-employment benefit (OPEB) plans that are administered through trusts that meet a specified criteria. The requirements of this Statement are effective for the Water System's financial statements for the year ended June 30, 2017. The Authority has evaluated this Statement and has provided additional disclosure within Note 10.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pensions Plans*, which amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meets certain criteria. The requirements of this Statement are effective for the Water System's financial statements for the year ended June 30, 2017. The Authority has evaluated this Statement and has determined there is no impact on the financial statements as its pension plan qualifies under GASB Statement No. 68 as disclosed within Note 9.

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

2. Deposits and Investments

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

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

At June 30, 2017 and 2016, the Water System had approximately \$7.7 million and \$7.5 million respectively, 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 as of June 30, 2017 and 2016, respectively, with a maturity date of less than a year. Cash deposits were \$3.3 million and \$2.3 million as of June 30, 2017 and 2016, respectively.

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

Credit Risk and Concentration of Credit Risks - As of June 30, 2017, 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, 2017, 51% of the Water System's cash and investments are in U.S. Treasury Funds, 26% are invested in certificates of deposit, and 23% are in cash deposits. 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.

The Authority places both Water and Electric System cash and cash equivalents with some of the same high credit quality financial institutions that are federally insured. Therefore, in the event of a loss, federal insurance recoveries would have to be allocated among the two systems. As such, the potential amounts held in excess of the FDIC limits for the Water System were \$3.1 million at June 30, 2017. 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, 2017, 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 quoted prices included within Level 1 that are observable for an asset or liability, that are either directly or indirectly observable.
- Level 3: Inputs are significant unobservable units.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

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

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

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

Following is the three-level fair value hierarchy as of June 30, 2017:

	Level 1	Level 2	Level 3
U.S. Treasury Fund	\$ 7,658,329	\$ -	\$ -

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	\$ -	\$ -

3. Accounts Receivable

Accounts receivable, current and non-current, at June 30, 2017 and 2016, consists of the following:

	2017	2016
Customers	\$ 6,920,199	\$ 6,768,791
Other	3,106	3,106
Less allowance for doubtful accounts	(6,229,362)	(5,976,668)
Customers and other, net	693,943	795,229
Virgin Islands Government	6,908,930	5,952,403
Less allowance for doubtful accounts	(43,588)	(57,355)
Virgin Islands Government, net	6,865,342	5,895,048
Unbilled revenues	1,120,220	1,407,504
Accounts receivable, net	\$ 8,679,505	\$ 8,097,781

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Management of the Authority has been working with the Government and its various instrumentalities in an attempt to obtain payment on outstanding receivable balances and to increase the percentage of remittances on current billings for services.

The Authority has made certain arrangements with specific governmental agencies concerning the collection of past due accounts receivable. As of June 30, 2017 and 2016, the Authority has classified Government accounts receivable of approximately \$3.6 million and \$2.4 million, respectively, as noncurrent because these balances are expected to take longer than one year from the statement of net position dates to be paid by the various government agencies.

4. Restricted Assets

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

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

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.

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.

Line Loss Fund - Amounts maintained in the Line loss Fund are to be utilized for projects that address losses on the Water System.

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 U.S. government securities stated at fair value. Other funds specified by the Bond Resolution and the Commission are primarily in cash and cash equivalents.

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

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Restricted assets at June 30, 2017 and 2016, consist of the following:

	2017	2016
Rehabilitation Fund	\$ 515,219	\$ 514,091
Construction Fund	155,221	154,910
Renewal and Replacement Fund	753,407	750,695
Debt Service Fund	3,773,246	3,672,711
Debt Service Reserve Fund	3,885,084	3,871,097
Line Loss Fund	619,674	699,933
	\$ 9,701,851	\$ 9,663,437

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. The Authority expended \$543 thousand of the advances as of June 30, 2017, while no amounts were expended as of June 30, 2016.

6. Capital Assets

Capital assets activity for the year ended June 30, 2017, 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	4,080,790	3,104,001	-	(3,066,818)	4,117,973
Depreciable assets:					
Utility plant	109,151,515	447,389	-	3,066,818	112,665,722
Total at historical cost	113,416,530	3,551,390	-	-	116,967,920
Less accumulated depreciation	49,889,163	1,386,288	-	-	51,275,451
Property-related gains	1,051,254	-	(187,509)	-	863,745
Total deductions	50,940,417	1,386,288	(187,509)	-	52,139,196
Capital assets, net	\$ 62,476,113	\$ 2,165,102	\$ 187,509	\$ -	\$ 64,828,724

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

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

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, 2017 and 2016, there was \$2.5 million outstanding under the lines of credit for the Water System. The lines were extended to have a maturity of December 2018.

Furthermore, there are certain financial reporting covenants that the Authority must comply with. The agreements require the Authority to deliver audited financial statements within 180 days after the end of its fiscal year. The banks have granted the Authority a waiver from this requirement for the year ended June 30, 2017

8. Long-Term Liabilities

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

	2017	2016
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.	\$ 3,665,000	\$ 7,140,000
Less current installments	(3,665,000)	(3,475,000)
Long-term debt, excluding current installments	\$ -	\$ 3,665,000

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

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 which 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's net revenues. 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, 2017 and 2016, the Authority's Debt Service Coverage ratio was 2.00 and 1.95, 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), 27th Legislature of the United States Virgin Islands.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

The following is a schedule of changes in long-term liabilities for the year ended June 30, 2017:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 7,140,000	\$ -	\$ (3,475,000)	\$ 3,665,000	\$ 3,665,000
Unamortized discount	(21,882)	-	21,882	-	-
Net OPEB obligation	9,721,808	235,155	-	9,956,963	-
Total long-term liabilities	\$ 16,839,926	\$ 235,155	\$ (3,453,118)	\$ 13,621,963	\$ 3,665,000

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

Future debt service requirements to maturity as of June 30, 2017, on the revenue bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2018	\$ 3,665,000	\$ 201,575	\$ 3,866,575

9. Net Pension Liability

As required, the Authority follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. 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 Government of the Virgin Islands Employees' Retirement System (GERS), a cost sharing multi-employer, defined benefit pension plan (the plan) established as of October 1, 1959 Title 3, Chapter 27 of the Virgin Islands Code to provide retirement, death, and disability benefits. Benefits may be extended to beneficiaries of plan members.

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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 Virgin Islands 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 increased 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 increased 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, the Board of Trustees of GERS 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

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:

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

The Authority is considered an employer of the plan with a proportionate share of 7.156% and 7.663% as of the measurement dates of September 30, 2016 and 2015, 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 \$5.1 million and \$5.2 million for the plan's fiscal year ended September 30, 2016 and 2015, respectively. The Water System's allocated share of employer contributions for the same period was \$0.9 million per fiscal year.

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

As of June 30, 2017 and 2016, the Authority's proportionate share of the net pension liability of the Plan was \$331.1 million and \$312.0 million, respectively, and the allocation to the Water System was \$56.3 million and \$53.0 million, respectively. The net pension liability of the plan is measured as of September 30, 2016 and 2015, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2016 and 2015, respectively.

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. Previously, the proportionate share information from GERS was estimated by management based on the respective single year contributions.

For the year ended June 30, 2017 and 2016, the Authority recognized pension expense of \$25.4 million and \$7.3 million, respectively, inclusive of amortization of deferred outflows of pension related items. Of those amounts, \$4.3 million and \$1.2 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 were 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, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 11,610,488	\$ -
Net difference between projected and actual earnings on pension plan investments	677,208	65,123
Difference between expected and actual experience	1,770,798	-
Changes in proportionate share	2,103,028	5,121,277
Contributions made subsequent to measurement date	642,977	-
	\$ 16,804,499	\$ 5,186,400

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	-
	\$ 15,961,309	\$ 3,263,089

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,

2018	\$ 2,240,137
2019	2,883,114
2020	2,268,392
2021	2,117,154
2022	733,163
Thereafter	733,162

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

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

Investment Rate of Return

The long-term expected rates of return of 7.00% for the years ending 2016 and 2015, respectively, on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation, as of the measurement date at September 30, 2016, are summarized below:

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

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

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

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Discount Rate

The discount rate used to measure the total pension liability was 3.20% as of the measurement date at September 30, 2016, and 3.84% as of the measurement date at September 30, 2015. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the future increases in the employee contribution rates legislated. Based on those assumptions, the plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on plan investments of 7.00% was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by projected assets, the yield on a 20-year AA Municipal Bond Index was applied, which was 3.06% and 3.71% as of the measurement date at September 30, 2016 and 2015, respectively.

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

The following presents the Water System's allocation of the Authority's proportionate share of the net pension liability (NPL) for the plan, calculated using the discount rate, as well as what the Water System's allocation of the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate for the year ended June 30, 2017:

1.0% Decrease - Share of NPL @ 2.20%	Share of NPL @ 3.20%	1.0% Increase - Share of NPL @ 4.20%
\$ 65,817,976	\$ 56,283,182	\$ 48,461,054

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, 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

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

10. 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 9) qualify for the Authority's postemployment health care benefits.

As this is a plan administered as a trust, a standalone report is issued which can be obtained from the Authority's management through the Chief Financial Officer at P.O. Box 1450, St. Thomas, USVI 00804.

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.

In anticipation of implementing GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the Authority opted to forego its regularly scheduled biennial valuation as of July 1, 2017. Instead, in order to determine the OPEB costs for fiscal year 2017, a roll-forward from the previous valuation as of July 1, 2015, was prepared. The resulting differential in the calculation of the year-end unfunded actuarial accrued liability is not deemed significant to the Authority.

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 \$59.0 million and \$57.6 million at June 30, 2017 and 2016, respectively, and the Water System 2017 and 2016 share was \$9.9 million and \$9.7 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 2017 and 2016 was \$8.0 million and \$7.8 million, respectively. Of this, the Water System's share for both fiscal years 2017 and 2016 was \$1.0 million.

The Authority's ARC as of June 30, 2017 and 2016, was \$8.4 million and \$8.1 million, respectively. Of this, the Water System's share as of June 30, 2017 and 2016 was \$1.1 million and \$1.0 million, respectively.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Description	2017	2016
Normal Cost (service cost for one year)	\$ 590,003	\$ 568,537
Amortization of Unfunded Actuarial Accrued Liability	480,707	462,218
Annual Required Contribution (ARC)	1,070,710	1,030,755
Interest on Net OPEB Obligation	388,872	357,375
Adjustment to ARC	(462,943)	(406,108)
Annual OPEB Cost	996,639	982,022
Contributions made	(761,484)	(194,596)
Increase in Net OPEB Obligation	235,155	787,426
Net OPEB Obligation, beginning of year	9,721,808	8,934,382
Net OPEB Obligation, end of year	\$ 9,956,963	\$ 9,721,808

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, 2017, 2016, and 2015 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 1,230,510	\$ 280,102	23%	\$ 8,928,308
6/30/2016	\$ 982,022	\$ 194,596	20%	\$ 9,721,808
6/30/2017	\$ 996,639	\$ 761,484	76%	\$ 9,956,963

Funding Policy, Status, and Progress

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. As of June 30, 2017, there was \$4.4 million in funded contributions by the Authority, of which \$0.8 million is allocated to the Water System. The funded status of the Water System's portion of the policy as of June 30, 2017 and 2016, was as follows:

	2017*	2016
Actuarial Accrued Liability (a)	\$ 9,971,360	\$ 9,971,360
Actuarial Value of Plan Assets (b)	-	-
Unfunded Actuarial Accrued Liability (UAAL) (c) = (a-b)	\$ 9,971,360	\$ 9,971,360
Funded Ratio (b/a)	0%	0%
Covered Payroll (Active Plan Members) (d)	\$ 4,347,492	\$ 3,665,263
UAAL as a Percentage of covered payroll (c/d)	229%	272%

*A valuation as of July 1, 2017, was not available due the Authority's anticipated implementation of GASB Statement No. 75. See separate Plan financial statements for further information.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

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, 2017 valuation. Actuarial assumptions include a 21-year amortization period, a 4% discount rate, projected salary increases of 5.5% including inflation of 3%, payroll growth of 4%, 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 25-year period.

11. Commitments and Contingencies

Litigation

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

Grant Funds

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, changes in net position, or liquidity.

Insurance Program

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

The Authority's commercial insurance policies cover catastrophic exposures, as well as those risks required to be insured by law or contract. It is the policy of the Authority to retain a significant portion of certain losses related primarily to physical loss to property, business interruption resulting from such loss, and comprehensive general and vehicle liability. There were no reductions in coverage from the prior year, and the amount of settlements has not exceeded insurance coverage for each of the past two years. Also see Note 13.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

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 \$8.4 million and \$8.2 million for 2017 and 2016, respectively.

Operating Leases

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

12. Regulatory Matters

In April 1998, the Governor signed into law Virgin Islands Act No. 6224, which provides that the Authority, as well as certain other instrumentalities of the Government, make a payment to the Government in lieu of taxes equal to 10% of net revenues or \$500,000, whichever is greater. The term "net revenues" is not defined in the legislation. Subject to further clarification from the Legislature, the Authority has interpreted net revenues as net income calculated in accordance with accounting principles generally accepted in the United States of America. For the years ended June 30, 2017 and 2016, the Water System did not incur any expenses related to this tax.

13. Subsequent Events

Natural Disasters - Hurricanes Irma and Maria

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

The Authority's water distribution storage tanks, in general, suffered minor damages except for one tank which lost approximately 20% of its dome roof plate as a result of flying debris. There were no complete tank failures to the water storage tanks on the Territory. As a result, the Authority was able to provide water service to customers at low elevations immediately after the storm events.

On or about September 7 and 20, 2017, the President of the United States declared the United States Virgin Islands a disaster area and eligible for Federal Emergency Management Agency (FEMA) recovery assistance.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

The Public Assistance Grant Program administered by FEMA provides federal support to include assistance for debris removal, life-saving emergency protective measures, and the repair, replacement, or restoration of disaster-damaged facilities. As of October 1, 2018, the Authority has been approved for approximately \$481.5 million in such grant funding and has received \$413.0 million of the award based upon a reimbursement process.

Furthermore, in order to fund its working capital needs in the aftermath of the hurricanes, the Authority obtained \$31.0 million under the Community Disaster Loan program administered by FEMA. This loan was originally issued under the Electric System, subordinate to all existing Electric System indebtedness including outstanding bonds, notes, and bank facilities. In March 2018, the Authority entered into another loan for \$44.0 million and refinanced the existing \$31.0 million for a combined loan of \$75.0 million, secured now as a first lien of the Water System's revenues. The proceeds of these loans were used to provide working capital mostly for fuel invoices, payroll, and other critical operating expenses. While the loan is reflected under the Water System, the payment of principal and interest is subject to an intercompany agreement whereby 17% will be allocated to the Water System and 83% to the Electric System.

In addition to incurring significant storm related expenses, recurring operating revenues of the Authority have been reduced. In the interim, the Authority has revised its fiscal year 2019 budget to reflect the reality of the Authority's financial situation and is considering implementing a number of austerity measures.

In an effort to close potential shortfalls and to serve returning citizens, the Authority continues to work closely with Federal agencies, to maximize its recovery from all available sources, subject to any sublimits and retentions. While inflows of Federal and private funds continue to bolster the reconstruction activity, the eventual amount and timing for receipt of such funds cannot be predicted at this time. As such, the full impact of these hurricanes on the Authority remains unknown and therefore, it is also not yet possible for the Authority to estimate the impact of hurricane-related losses on revenue collections or expenditures.

Rate Case

On November 30, 2015, the Authority's Governing Board authorized the Authority's management to file a petition (the Petition) with the Commission for permanent base rates for the Water System. In summary, the Authority petitioned the Commission 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 Commission, as well as the minimum 125% required coverage and to (2) fund a portion of the Authority's high-priority capital needs for the Water System.

The Petition sought 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.

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.

On May 1, 2018, the Authority requested the Commission to close Docket 652 (the Water System Rate Case) and new rate petitions will be filed. The Authority took this action due to the impact of Hurricanes Irma and Maria on its operations, in addition to the significant time lapse since the original Petition.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Management's Evaluation

Management has evaluated any events or transactions occurring after June 30, 2017, the statement of net position date, through December 7, 2018, 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, 2017.

Required
Supplementary Information

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/b)	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%
7/1/2017	\$ -	\$ 9,971,360	\$ 9,971,360	0.00%	\$ 4,347,492	229%

*A valuation as of July 1, 2017, was not available due the Authority's anticipated implementation of GASB Statement No. 75. See separate Plan financial statements for further information.

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>	2017	2016	2015
Water System's proportion of the net pension liability	1.2165%	1.2924%	1.4591%
Water System's proportionate share of the net pension liability	\$ 56,283,182	\$ 53,044,578	\$ 45,026,931
Water System's covered-employee payroll	\$ 3,665,263	\$ 3,275,222	\$ 3,275,222
Water System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1536%	1620%	1375%
Plan fiduciary net position as a percentage of the total pension liability	16.54%	19.58%	27.26%

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

Water System of the Virgin Islands Water and Power Authority

Schedule of the System's Pension Contributions

<i>Fiscal Year</i>	2017	2016	2015
Actuarially required contributions	\$ 3,587,192	\$ 3,030,406	\$ 2,919,510
Contributions in relation to the actuarially required contributions	735,017	597,521	793,748
Contribution deficiency (excess)	\$ 2,852,175	\$ 2,432,885	\$ 2,125,762
Covered-employee payroll	\$ 4,347,492	\$ 3,665,263	\$ 3,275,222
Contributions as a percentage of covered-employee payroll	16.54%	16.30%	24.23%

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

Supplementary Schedule

Water System of the Virgin Islands Water and Power Authority

Five-Year Comparative Summary of Operations (Unaudited)

<i>Years ended June 30,</i>	2017	2016	2015	2014	2013
Operating revenues:					
Water sales to customers	\$ 12,122,915	\$ 12,651,258	\$ 11,437,836	\$ 10,794,675	\$ 13,387,276
Water sales to Virgin Islands Government	9,729,815	8,223,966	9,503,662	10,383,518	11,365,459
Fuel escalator revenues	8,971,868	9,759,747	11,332,551	10,343,859	13,014,619
Line loss surcharge	783,003	723,183	756,256	395,485	-
Bad debt (expense) recovery	(400,928)	(80,420)	72,960	(415,486)	(60,767)
Total operating revenues	31,206,673	31,277,734	33,103,265	31,502,051	37,706,587
Operating and production expenses:					
Production cost of water distributed	11,136,598	11,835,397	13,502,213	12,128,267	18,614,867
Operations and maintenance	11,623,441	8,886,167	13,212,720	7,944,279	7,700,506
Customer service	976,983	925,581	1,248,120	1,352,112	1,174,849
Administrative and general	5,416,962	5,728,301	5,118,068	5,099,855	4,474,508
Depreciation and amortization	1,198,779	3,144,304	3,409,422	3,413,191	4,097,298
Total operating and production expenses	30,352,763	30,519,750	36,490,543	29,937,704	36,062,028
Operating income (loss)	853,910	757,984	(3,387,278)	1,564,347	1,644,559
Nonoperating revenues (expenses):					
Loss on retirement of capital assets	-	(3,147,815)	-	-	-
Interest expense	(323,221)	(506,873)	(695,573)	(864,360)	(1,364,441)
Investment earnings	33,029	12,922	9,844	28,546	26,992
Total nonoperating expense	(290,192)	(3,641,766)	(685,729)	(835,814)	(1,337,449)
Capital grants and contributions	2,826,369	1,498,989	29,238	3,007,146	3,185,475
Increase (decrease) in net position	\$ 3,390,087	\$ (1,384,793)	\$ (4,043,769)	\$ 3,735,679	\$ 3,492,585
Water revenues:					
Residential	\$ 4,713,748	\$ 4,548,624	\$ 4,354,561	\$ 4,193,223	\$ 4,994,669
Commercial	6,583,707	7,072,209	6,311,550	6,089,829	7,626,991
Virgin Islands Government	3,872,803	2,829,962	3,684,954	4,356,682	4,091,025
Other governments	5,857,011	5,394,004	5,818,708	6,026,836	7,274,434
Standpipe	378,936	547,669	292,751	91,154	240,724
Fuel escalator revenues	8,971,868	9,759,747	11,332,551	10,343,859	13,014,619
Line Loss Surcharge	783,003	723,183	756,256	395,485	-
Other	446,525	482,757	478,974	420,469	524,894
Total	\$ 31,607,601	\$ 31,358,155	\$ 33,030,305	\$ 31,917,537	\$ 37,767,356
Water sales (gallons) (in thousands):					
Residential	209,727	240,443	216,134	207,681	238,600
Commercial	278,953	286,867	262,335	400,747	465,970
Virgin Islands Government	184,051	133,699	185,874	208,866	179,361
Other governments	431,611	369,202	285,783	288,051	336,907
Standpipe	20,759	29,992	15,601	5,055	11,384
Total	1,125,101	1,060,203	965,727	1,110,400	1,232,222
Number of customers at year-end	12,723	12,441	12,441	12,311	12,329