

**EMPLOYEES' RETIREMENT SYSTEM OF  
THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

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**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
*Year Ended September 30, 2015*  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**



**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

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**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

*Year Ended September 30, 2015*

**TABLE OF CONTENTS**

<b>DESCRIPTION</b>	<b>PAGE</b>
Independent Auditor's Report	1
Management's Discussion and Analysis	4
<b><i>Basic Financial Statements:</i></b>	
Statement of Plan Fiduciary Net Position	10
Statement of Changes in Plan Fiduciary Net Position	11
Notes to Financial Statements	12
<b><i>Required Supplementary Information:</i></b>	
Schedule of Employer Contributions:	
Exhibit 1 – Schedule of Changes in the Employers' Net Pension Liability	33
Exhibit 2 – Notes Schedule of Changes in the Employers' Net Pension Liability	34
Exhibit 3 – Schedule of Employer Contributions – Last Ten Fiscal Years	35
Exhibit 4 – Notes to Schedule of Employer Contributions	36



## INDEPENDENT AUDITOR'S REPORT

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The Board of Trustees  
Employees' Retirement System  
of the Government of the U.S. Virgin Islands

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Employees' Retirement System of the Government of the U.S. Virgin Islands (the System), a component unit of the Government of the U.S. Virgin Islands, which comprise the statement of fiduciary net position as of September 30, 2015, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from 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 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.

### ***Emphasis of a Matter***

As discussed in Note 1, the System is a component unit of the Government of the U.S. Virgin Islands for financial reporting purposes. The System's financial statements present the transactions that are attributable to the System. They do not purport to, and do not, present fairly the Government of the U.S. Virgin Island's overall financial position and results of operations as of September 30, 2015.

### ***Emphasis of a Matter***

As discussed in Note 1, the System is a component unit of the Government of the U.S. Virgin Islands for financial reporting purposes. The System's financial statements present the transactions that are attributable to the System. They do not purport to, and do not, present fairly the Government of the U.S. Virgin Island's overall financial position and results of operations as of September 30, 2015.

### ***Basis for Qualified Opinion***

As discussed in Note 5 (c), the System holds an interest in a limited partnership, which invests in senior life insurance policies. The System has been unable to determine the fair value of its interest in the partnership and the ultimate recoverability of its investment. The investment is recorded at \$26,403,987 in the financial statements.

The System's financial statements do not present the components of the pension liability in note 4 in accordance with accounting principles generally accepted in the United States of America. The total pension liability was not actuarially calculated as of September 30, 2015. As a result, we were unable to obtain sufficient information for proper disclosure of the total pension liability, and related disclosure requirements.

### ***Qualified Opinion***

In our opinion, based on our audit, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs above, the financial statements referred to above present fairly, in all material respects, the fiduciary net position and changes in fiduciary net position of the Employees' Retirement System of the Government of the U.S. Virgin Islands as of September 30, 2015 and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Report on Summarized Comparative Information***

We have previously audited the financial statements of the System for the year ended September 30, 2014, and we expressed a modified audit opinion on those audited financial statements in our report dated June 26, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis on pages 4 through 9, 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 on pages 33 through 36, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Schedule of Changes in the Employers' net Pension Liability as of September 30, 2015, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic and historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

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

Bart Smith & Co.

St. Croix, U.S. Virgin Islands  
April 25, 2016, except as to Note 4 which is as of June 3, 2016

# EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Year Ended September 30, 2015*

This Management's Discussion and Analysis (MD&A) of the Employees' Retirement System of the Government of the U.S. Virgin Islands (the System) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the System's financial activity, (c) identify changes in the System's financial position, and (d) identify individual issues or concerns. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

The MD&A is intended as a supplement and should be read in conjunction with the financial statements.

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

The System is a component unit of the primary government of the U.S. Virgin Islands and is included in the Comprehensive Annual Financial Report of the Government. The System's financial statements include the following components:

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements
- Required Supplementary Information

The *Statement of Fiduciary Net Position* presents the Plan's assets and liabilities and the resulting net assets, which are held in trust for pension benefits. This statement reflects a year-end snapshot of the System's investments, at fair value, receivables and other assets and liabilities.

The *Statement of Changes in Fiduciary Net Position* presents information showing how the Plan's net assets held in trust for pension benefits changed during the year. This statement includes additions for contributions by members and employers and investment earnings and deductions for annuity payments, refunded contributions, death benefit payments and administrative expenses.

*Notes to the Financial Statements* are an integral part of the financial statements and provide additional information that is necessary in order to gain a comprehensive understanding of the data reported in the financial statements. This section also now includes the disclosure of actuarial methods and significant assumptions used in the most recent actuarial valuations and the funded status of the Plan in accordance with GASB Statement No. 68 which supersedes the requirements of Statement No. 27 "Accounting for Pensions by State and Local Governmental Employers", as well as the requirements of Statement No. 50 "Pension Disclosures".

*Required Supplementary Information* presents information concerning the Systems' funding progress and its obligations to provide pension benefits to members. A schedule of required employer contributions is also presented and is useful in evaluating the condition of the plan.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Year Ended September 30, 2015**

**FINANCIAL ANALYSIS OF THE SYSTEM AS A WHOLE**

**Fiduciary Net Position**  
 September 30, 2015  
 (Dollar amounts expressed in thousands)

<b>Fiduciary Net Position</b>	<b>2015</b>	<b>2014</b>	<b>Increase (Decrease)</b>	<b>Percentage</b>
Cash, cash equivalents and investments	\$ 828,287	\$ 950,615	\$ (122,328)	(12.87%)
Foreign currency exchange contracts	-	239	(239)	(100%)
Member loans, net	159,218	157,112	2,106	1.34%
Real estate, net	72,885	71,219	1,666	2.34%
Other assets	11,837	16,087	(4,250)	(26.42%)
<b>Total assets</b>	<b>1,072,227</b>	<b>1,195,272</b>	<b>(123,045)</b>	<b>(10.29%)</b>
Security lending transactions	65,199	33,485	31,714	94.71%
Other liabilities	15,987	18,896	(2,909)	(15.39%)
<b>Total liabilities</b>	<b>81,186</b>	<b>52,381</b>	<b>28,805</b>	<b>54.99%</b>
<b>Total net position</b>	<b>\$ 991,041</b>	<b>\$ 1,142,891</b>	<b>\$ (151,850)</b>	<b>(13.29%)</b>

At September 30, 2015 and 2014, the System's total assets were \$1.1 billion and \$1.2 billion, respectively. This decrease in total assets resulted mainly from the net effect of the following:

- The cash and cash equivalents increased by approximately \$5.7 million as of September 30, 2015 from approximately \$51.4 million as of September 30, 2014 to approximately \$57.1 million as of September 30, 2015. The cash and cash equivalents excluding interest bearing deposits are segregated as follows (*dollar amounts in thousands*):

	<b>2015</b>	<b>2014</b>	<b>Increase (Decrease)</b>
Cash in money market accounts	\$ 26,988	\$ 26,745	\$ 243
Cash in operational accounts	30,189	24,694	5,495
<b>Total cash and cash equivalents</b>	<b>\$ 57,177</b>	<b>\$ 51,439</b>	<b>\$ 5,738</b>

- The Interest bearing deposits with financial institutions accounted for \$14.84 million and \$14.74 million, as of September 30, 2015 and 2014, respectively. The increase is the result of interest earned on the System's certificates of deposits.
- The increase in cash held in money market accounts of approximately \$243 thousand is the result of the System's need for less cash during the year, due to a decrease in operating expenses and the elimination of funding for loans as a result of the suspension of the member loan program.

## EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

### MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*) *Year Ended September 30, 2015*

- Cash, cash equivalents and investments decreased approximately \$122.3 million, which represented a 12.87% decrease over September 30, 2014. For the year ended September 30, 2015 the total return on the investment portfolio amounted to -1.0%. The following is also noted:
  - The invested cash collateral received under lending transactions, which is included in cash, cash equivalents and investments, increased to approximately \$65.2 million as of September 30, 2015 from approximately \$33.5 million as of September 30, 2014. This increase of \$31.7 million was offset by a comparable increase in the liabilities section (payable for collateral received under securities lending). These securities lending transactions pay a predetermined interest rate with a significant covenant protecting the lender from exposure to loss. The change in the securities lending transactions is dependent on the securities loaned at year-end by the System's custodian.
  - The unsettled securities sold increased \$331 thousand to approximately \$575 thousand as of September 30, 2015 from approximately \$244 thousand as of September 30, 2014.
  - The investment loans increased approximately \$1.0 million to approximately \$26.6 million as of September 30, 2015 from approximately \$25.6 million as of September 30, 2014.
- The members' loans increased \$2.2 million to approximately \$160.5 million as of September 30, 2015 from approximately \$158.3 million as of September 30, 2014. The 1.41% increase was attributable primarily to the increase in personal loans granted during the year.
- The real estate increased approximately \$1.7 million primarily due to the \$5.9 million increase in the fair value of Carambola NW, LLC net of depreciation, as a result of the 2015 appraisal.
- Total other assets decreased by approximately \$4.3 million primarily due to the increase in outstanding payments received from Central Government and other government agencies.

At September 30, 2015, the System's total liabilities were \$81.2 million compared with \$52.4 million at September 30, 2014. The increase is primarily due to:

- Payable for collateral received under securities lending transactions increased by approximately \$31.7 million when compared to prior year. This increase was offset by a comparable decrease in the assets section (cash collateral received under securities lending). The change in the securities lending transactions is dependent on the securities loaned at year-end by the System's custodian.



**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Year Ended September 30, 2015**

**Comparison of 2015 and 2014 Additions, Deductions and Changes in Fiduciary Net Position**

Condensed additions, deductions, and changes in plan net assets are presented below (*dollar amounts in thousands*):

<b>Additions, Deductions and Changes in Fiduciary Net Position</b>	<b>2015</b>	<b>2014</b>	<b>Increase (Decrease)</b>	<b>Percentage</b>
Net (depreciation) appreciation in fair value of investments	\$ (14,295)	\$ 37,046	\$ (51,341)	(138.59%)
Interest, dividends, and other	22,019	26,994	(4,975)	(18.43%)
Rental income, net	1,482	(754)	2,236	296.55%
Less investment management fees and custodian fees, borrowers' rebates and other agent fees on securities lending transactions, and other expenses	4,238	2,959	1,279	43.22%
Total investment income	4,968	60,327	(55,359)	(91.76%)
Total contribution income	108,533	102,319	6,214	6.07%
Other income	1,161	3,573	(2,412)	(67.51%)
Total additions	114,662	166,219	(51,557)	(31.02%)
Benefits paid directly to members	246,072	239,713	6,359	2.65%
Refunds of members' contributions	4,038	7,356	(3,318)	(45.11%)
Administrative and operational expenses	16,402	18,868	(2,466)	(13.07%)
Total deductions	266,512	265,937	575	.22%
Net decrease	\$ (151,850)	\$ (99,718)	\$ 52,132	52.28%

For the year ended September 30, 2015, operations resulted in a net decrease in the plan net assets to approximately \$151.8 million when compared to the net decrease of \$99.7 million for the year ended September 30, 2014. This net decrease of \$52.1 million in the plan net assets resulted from the net effect of the following:

■ **Net Appreciation in Fair Value of Investments**

Total net depreciation in fair value of investments for the year ended September 30, 2015 was approximately \$14.3 million, reflecting a 138.59% decrease when compared to the \$37 million net appreciation reported for the year ended September 30, 2014. This change was primarily driven by a -1.0 percent return for the fiscal year 2015 versus a 5.2 percent return for the prior fiscal year.

Domestic common stock depreciation in fair value for the year ended September 30, 2015 was approximately \$1.1 million, reflecting a 94.94% decrease compared to the \$21.6 million net appreciation reported for the year ended September 30, 2014. This was largely driven by domestic equity's return of 1.6 percent for the fiscal year 2015 versus a 16.3 percent return for the prior fiscal year. The economic slowdown in China, continuing decline in oil prices, and uncertainty over the Federal Reserve's anticipated rate increase, signaled weakness in global markets which put pressure on domestic equity prices.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Year Ended September 30, 2015**

	<b>2015</b>	<b>2014</b>	<b>Increase (Decrease)</b>	<b>Percentage</b>
U.S. government and agency obligations	\$ 849,323	\$ (163,995)	\$ 1,013,318	617.90%
Corporate obligations	(510,739)	660,204	(1,170,943)	(177.36%)
Foreign bonds and government obligations	493,899	(107,086)	600,985	561.22%
Common and preferred stock – U.S.	1,090,680	21,562,772	(20,472,092)	(94.94%)
Common and preferred stock – foreign	(1,066,049)	(99,380)	(966,669)	972.70%
Mortgage and asset-backed securities	(101,651)	344,823	(446,474)	(129.48%)
Commingled and mutual funds	(13,815,951)	50,186,672	(64,002,623)	(127.53%)
Real estate investment	5,939,671	270,894	5,668,777	2092.62%
Investment loans	(3,695,002)	(6,999,400)	3,304,398	(47.21%)
Limited partnership	(3,479,309)	(3,009,658)	(469,651)	15.60%
<b>Totals</b>	<b>\$(14,295,128)</b>	<b>\$62,645,846</b>	<b>\$(76,940,974)</b>	<b>(122.82%)</b>

Commingled and mutual funds depreciation in fair value for the year ended September 30, 2015 was approximately \$13.8 million, reflecting a 127.53% decrease compared to the \$50.2 million net appreciation reported for the year ended September 30, 2014. This was largely driven by System's need to liquidate investments to provide \$142 million of cash for its operational cash account to meet semi-monthly benefit payments. This factor in addition to the weak international markets performance negatively impacted the System's performance in this sector.

Fixed income consists of U.S. Government and Agency, Corporate, Mortgage and Asset-backed and Foreign bonds. Fixed income net appreciation in fair value for the year ended September 30, 2015 was approximately \$731 thousand compared to the \$734 thousand net appreciation for the year ended September 30, 2014. The composition of the net appreciation and depreciation is as follows:

- U.S. Government and Agencies – \$849 thousand
- Corporate – (\$511 thousand)
- Mortgage and Asset-backed – (\$102 thousand)
- Foreign Bonds and Government Obligations – \$494 thousand

The System is a long-term investor and manages the pension fund with long-term goals in mind. The primary investment philosophy of the System is diversity among various asset classes, which is the best way to achieve its long-term goal. As of fiscal year September 30, 2015, the asset allocation was slightly out of line with the System's target. GERS management along with its Board of Trustees, under advisement from the financial advisors, will continue to review all investment programs and monitor the investment managers who are responsible for investing assets on the System's behalf.

## EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

### MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*) *Year Ended September 30, 2015*

- **Net Appreciation in Fair Value of Real Estate**

The net appreciation in the fair value of real estate was largely due to an independent appraisal of Carambola NW, LLC as of July 2015. The value of the Carambola NW, LLC was adjusted by \$5.9 million in fiscal year 2015 to reflect its fair market value consistent with the application of GASB No. 25.
- **Interest, Dividends, and Other**

Total interest, dividends, and other decreased to approximately \$22 million for the year ended September 30, 2015 compared to approximately \$27 million for the year ended September 30, 2014. The decrease of \$5 million was due primarily to the net combination of the following factors: interest income increased approximately \$1.2 million; and investment and dividend income decreased approximately \$6.2 million.
- **Investment Management Fees and Custodian Fees, Borrower' Rebates and Other Agent Fees on Securities Lending Transactions, and Other Expenses**

The Custodian and investment advisers of the System's investment fund are entitled to annual fees computed on the basis of the market value of the System's investment fund assets and for reimbursement of out-of-pocket expenses incidental to custodial duties. Such investment and other fees increased to approximately \$4.2 million for the year ended September 30, 2015 from approximately \$2.9 million for the year ended September 30, 2014. All fees were based on asset values.
- **Contribution Income**

Total contribution income increased by approximately 6.07% or \$6.2 million to \$108.5 million in fiscal year 2015 from \$102.3 million in fiscal year 2014. This was due primarily to members retiring, which resulted in the payment of the employers' share of delinquent prior year's contributions for those who had entered into retirement. This is further reflected in an increase in benefits paid to members by approximately 2.65% or \$6.4 million over Fiscal 2014. Additionally, contributions refunded decreased by 45.11% or \$3.3 million over Fiscal 2014.
- **Other Income**

Other income decreased to \$1.2 million for fiscal year ended September 30, 2015 from approximately \$3.6 million dollars in fiscal year ended September 30, 2014.
- **Benefits Paid Directly to Members**

Benefits paid directly to members increased to approximately \$246.1 million for the year ended September 30, 2015 from approximately \$239.7 million for the year ended September 30, 2014. This increase of 2.65% or \$6.4 million was due primarily to the net effect of annuities paid which include retro payments from prior periods; regular monthly annuity; duty connected disability; and death benefits.
- **Administrative and Operational Expenses**

Administrative and operational expenses decreased by approximately \$2.5 million to approximately \$16.4 million for the year ended September 30, 2015 from \$18.9 million for the year ended September 30, 2014.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**STATEMENT OF PLAN FIDUCIARY NET POSITION**

**SEPTEMBER 30, 2015**

*(With Comparative Totals for 2014)*

	<b>Year Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
	<b>Assets</b>	
Cash and cash equivalents	\$ 57,177,831	\$ 51,438,732
Cash collateral received under securities lending transactions (Note 6)	65,198,931	33,484,615
Investments, at fair value (Note 5):		
Certificates of deposits	14,841,552	14,740,081
U.S. government and agency obligations	19,742,616	60,755,148
Corporate obligations	18,245,946	31,144,415
Foreign bonds and government obligations	-	5,483,584
Common stock – U.S.	169,924,687	151,663,524
Mortgage and asset-backed securities	29,315,436	30,970,242
Commingled and mutual funds	377,954,449	487,821,519
Unsettled securities sold	574,868	244,302
Investment loans	26,613,142	25,551,904
Real estate investment trust	2,057,574	3,409,558
Limited partnerships	46,639,764	53,907,600
Total cash, cash equivalents and investments	<u>828,286,796</u>	<u>950,615,224</u>
Foreign currency exchange contracts (Note 5)	-	239,214
Member loans:		
Mortgage	8,649,055	7,977,360
Personal	151,801,578	150,280,266
Auto	92,573	60,752
	<u>160,543,206</u>	<u>158,318,378</u>
Less allowance for losses	<u>(1,325,282)</u>	<u>(1,206,401)</u>
	<u>159,217,924</u>	<u>157,111,977</u>
Real estate:		
Havensight Mall	41,000,000	41,000,000
Carambola NW- LLC	8,000,000	2,100,000
System Complex	23,885,625	28,118,790
	<u>72,885,625</u>	<u>71,218,790</u>
Reserved assets	26,435	5,793
Due from other agencies of the Government of the U.S. Virgin Islands	5,501,438	10,618,291
Accrued interest receivable	3,208,566	2,421,782
Other assets	3,100,434	3,040,958
Total assets	<u>1,072,227,219</u>	<u>1,195,272,029</u>
	<b>Liabilities</b>	
Retirement benefits in process of payment	3,986,620	4,021,823
Payable for collateral received under securities lending transactions (Note 6)	65,198,931	33,484,615
Unsettled securities purchased	454,596	3,996,207
Other liabilities	11,545,820	10,878,009
Total liabilities	<u>81,185,967</u>	<u>52,380,654</u>
Net position restricted for Pensions	<u>\$ 991,041,251</u>	<u>\$ 1,142,891,375</u>

*The accompanying notes are an integral part of the financial statements.*

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**STATEMENT OF CHANGES IN PLAN FIDUCIARY NET POSITION**

**SEPTEMBER 30, 2015**

*(With Comparative Totals for 2014)*

	<b>Year Ended September 30,</b>	<b>September 30,</b>
	<b>2015</b>	<b>2014</b>
Additions:		
Investment income:		
Net (depreciation) appreciation in fair value of investments	\$ (14,295,128)	\$ 37,045,846
Interest and dividends	21,001,314	17,399,314
Other investment income	1,017,592	9,594,220
Rental income - net of related expenses	1,482,049	(753,737)
	<u>9,205,827</u>	<u>63,285,643</u>
Less:		
Investment management fees and custodian fees	3,995,241	2,883,726
Borrowers' rebates and other agent fees on securities lending transactions	116,137	39,847
Other expenses	126,847	35,149
	<u>4,967,602</u>	<u>60,326,921</u>
Contributions:		
Employer	72,287,934	68,298,617
Employee	36,245,016	34,020,107
	<u>108,532,950</u>	<u>102,318,724</u>
Other income	1,161,300	3,573,611
	<u>114,661,852</u>	<u>166,219,256</u>
Total additions		
Deductions:		
Benefits paid directly to members	246,072,384	239,713,063
Refunds of members' contributions	4,037,871	7,356,440
Administrative and operational expenses	16,401,721	18,867,491
	<u>266,511,976</u>	<u>265,936,994</u>
Total deductions		
Net (decrease) in net position	(151,850,124)	(99,717,738)
Net position restricted for pensions:		
Net position beginning of year	1,142,891,375	1,242,609,113
Net position end of year	<u>\$ 991,041,251</u>	<u>\$1,142,891,375</u>

*The accompanying notes are an integral part of the financial statements.*

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2015*

**1. Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows:

**Reporting Entity** --- The Government of the U.S. Virgin Islands Employees' Retirement System (the System) is a single employer defined benefit plan. The System was established as of October 1, 1959 by the Government of the U.S. Virgin Islands (the Government or Employer) as an independent and separate agency to provide pension benefits to its employees, and includes Judicial, Executive, Legislative Branches and outside agencies. Under provisions of Virgin Islands Code, Title 3, Chapter 27, (the Code) the board of trustees of the System are responsible for the administration of the System.

The System is a component unit of the Government of the U.S. Virgin Islands for financial reporting purposes and is included in the Government's financial reports as a pension trust fund.

Membership of the System consisted of the following at September 30, 2015:

	<u>2015</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	8,465
Current employees	<u>9,303</u>
	<u>17,768</u>

The System provides for retirement, death, and disability benefits to plan members. Benefits may be extended to beneficiaries of plan members. Regular employees who have completed 30 years of credited service or have attained age 60 with at least 10 years of credited service are eligible for a full service retirement annuity. Members who are considered "safety employees" as defined in the Code are eligible for full retirement benefits when they have earned at least 20 years of government 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. Senators and members of the Legislature may receive a retirement annuity when they have attained age 50 and upon the completion of 6 years of credited service as a member of the legislature.

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. The Board may set cost-of-living increases for annuitants and pensioners and determine when the annuity should be paid on the basis of the most recent actuarial valuation and the Consumer Price Index. The annual increase in the case of a disability annuity shall be 1 percent per year prior to the member's attainment of age 60 and 1 percent per year thereafter.

# EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2015

### 1. Summary of Significant Accounting Policies (*continued*)

The Administrator of the System manages the business of the System and is responsible for its proper operation, in accordance with the Virgin Islands Code, Title 3, Chapter 27, section 715(d)(1) bylaws, resolutions, and directives of the board of trustees of the System.

The following description of the System is provided for general information purposes only. Members should refer to the actual text of the retirement law in the Code, Title 3, Chapter 27 for more complete information.

#### ■ **Eligibility and Membership**

As a condition of employment, a person employed by the Government shall become a member of the plan, except that persons over 55 on the date of appointment may opt out of the plan by providing formal notification to the System. Membership contributions shall begin upon the completion of one month of service. Employees compensated on contract, fee basis, casual, per diem or provisional and part-time employees who work less than 20 hours per week are excluded from membership.

#### ■ **Contributions**

Contributions to the System are made by the employer (Government of the U.S. Virgin Islands and its Independent Instrumentalities) and employee. From time to time, The Board may actuarially determine the rate of contribution for Tier I members and employers of the System. The Board of Trustees may not increase rates by more than 3.0% over a five-year period. The employer's contributions together with the employee's contributions and the income of the System should be sufficient to provide an adequate actuarially determined reserve for the benefits prescribed by the Code.

The contributions required to fund the System on an "actuarial reserve basis" are calculated periodically by the System's actuarial consultant. The actuarial valuation as of September 30, 2014 indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the costs of the System on an actuarial basis.

The employer's required contribution is 20.5% of the employee's annual salary and required employee contributions are 9% and 9.5% of annual salary for Tier I and Tier II regular employees respectively; 10% and 14% for Tier I and Tier II senators respectively, 12% and 14% for Tier I and Tier II judges respectively, and 11% and 11.625% for Tier I and Tier II safety (hazardous employees and eligible employees under Act 5226) respectively. Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective November 2, 2005, legislation was passed that required that the annual interest on refunded contributions be determined by the Board based on the experience of the System which shall not be less than 2%, nor more than 4% per annum. The system set the interest rate to 2% effective July 1, 2009.

#### ■ **Early Retirement Act of 1994**

In August 1994, legislation providing an early retirement incentive was passed. The legislation was subsequently amended on October 13, 1994, December 30, 1994 and December 5, 1995. Among other matters, the legislation allowed a member of the System who had a combined aggregate number of years of credited service plus number of years of age attained, equal to at least 75 years as of the date of the legislation to retire without reduction of annuity.

# EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2015

### 1. Summary of Significant Accounting Policies (*continued*)

Members who attained the age of 50 with at least 10 but less than 30 years of credited service may add an additional three years to their age for this computation. Members with 30 years of service or who can retire without penalty under the Code shall have their average compensation increased by 4 percentage points.

For each employee electing to retire pursuant to Section 8(a) of the above-mentioned Act, the Government shall contribute to the System, on a quarterly basis, an amount equal to the Employer and Employee contributions that would have been made until the employee reached age 62 had the employee not elected to retire under this provision.

For employees electing to retire under Section 8(b) of the Act, the Government shall contribute to the System a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4% higher during the 3 years used to compute the employee's average compensation figure, plus a sum of \$5,000. Based on the calculation, this amount was \$26,944,627 as of September 30, 2015, of which a total of \$26,944,627 has been received by the System since the year ended September 30, 1998.

The Actuary of the System has determined that the specific funding provided under the Early Retirement Act of 1994 is inadequate to cover the costs of the program. The System is seeking to recover any unfunded costs of the program under a newly enacted provision of the retirement law which provides that the employer shall compensate the System for the costs of any special early retirement program.

#### ■ Member Loans

Subject to the provisions of the retirement law and subject to rules and regulations prescribed by the board of trustees, members of the System have the right to obtain loans from the System to finance a home, automobile, or other personal needs. The maximum mortgage loan that could be granted to members who have been contributing to the System for at least five years is \$250,000. The interest rate on new first mortgages was: 5% for loans payable in 1 to 15 years and 5.75% for loans payable in over 15 years; and on second mortgages 6% for loans payable in 1 to 15 years and 6.75% for loans payable in over 15 years. Members may also borrow up to \$50,000, at 5% interest rate, to purchase land.

Members who have contributed to the System for at least five years can borrow up to \$18,000 for the purchase of an automobile. The interest rate offered on auto loans changes periodically, but is never below 8%, with a maximum term of five years.

Active members may also borrow up to 75% of their contributions paid into the System to a maximum borrowing of \$50,000 as a personal loan. The interest rate offered on personal loans was 8% for the year. Retired members could qualify for personal loans up to \$50,000 at the same interest rate as active members; and, effective March 25, 2014 retirees were allowed to refinance their loans regardless of the outstanding balance. All loans have a mandatory credit life insurance.

In August 2015, the System suspended the Members' Loan program.



# EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2015

### 1. Summary of Significant Accounting Policies (*continued*)

#### ■ Administrative Expenses

The administrative expenses of the System are obligations of the System and are being handled by the System through its own bank account. The System's board of trustees approves the System's annual operating budget.

**Basis of Accounting** --- The accompanying financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Employee and employer contributions are recognized as additions to plan net assets in the period in which employee services are performed. Benefits are recorded upon payment. Refunds are recognized when due and payable in accordance with the terms of the plan.

**Cash and Cash Equivalents** --- The System considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

**Methods Used to Value Investments** --- Investments in marketable securities are carried at quoted market values. Shares of mutual funds are valued at the net asset value of shares held by the System at year-end. Purchases and sales are recorded on a trade-date basis. Realized gains and losses on securities are determined by the average cost method.

Investments in member loans are valued at the outstanding principal balance less an allowance for estimated loan losses. Management of the System believes that, based upon interest rate and risk factors, this valuation approximate fair value. Investments in limited partnerships have no readily ascertainable market value and are based on the valuation reported by the general partners.

Investment in the Havensight Mall real estate is based on an independent appraisal as of October 2014. The value in this investment remained at \$41,000,000 at September 30, 2015.

Investment in the System's facilities - St. Thomas/St. Croix real estate is carried at historical cost, net of accumulated depreciation and amortization on that portion of the facility which is occupied by the System.

Investment in Carambola NW-LLC d/b/a Renaissance St. Croix Carambola Beach Resort and Spa is based on an independent appraisal as of 2015. The value has increased at September 30, 2015.

There are certain market risks, credit risks, liquidity risks, foreign exchange risks, and event risks which may subject the System to economic changes occurring in certain industries, sectors, or geographies.

**Depreciation** --- Capital assets utilized in the operation of the System are recorded at historical cost and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Furniture and equipment are depreciated over 5 years and building and improvements over 25 years. The capitalization threshold used by the System was \$1,000 and an estimated useful life in excess of one year.

# EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2015

### 1. Summary of Significant Accounting Policies *(continued)*

**Tax Exemption** --- The System is exempt from all income and property taxes.

**Use of Estimates** --- The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining the reported amounts of plan net position, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results may differ from those estimates. The System utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and that such change could materially affect the amounts reported in the financial statements.

**Comparative Totals** --- The financial statements include certain prior year's summarized comparative information. Such information does not include sufficient detail on reclassifications to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended September 30, 2014, from which the summarized information was derived.

### 2. Cash and Cash Equivalents

The cash and cash equivalents include the following:

	<u>2015</u>
Cash in money market accounts	\$ 26,988,355
Cash in operational accounts	30,189,476
Total cash and cash equivalents	<u>\$ 57,177,831</u>

### 3. Accounting Changes

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*; an amendment of GASB Statement No. 27, to improve the accounting and financial reporting by state and local governments for pension plans. The statement was implemented in fiscal year 2015.

GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68. Statement No. 71 was issued to amend paragraph 37 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2015*

**4. Net Pension Liability**

The components of the net pension liability (NPL) as of September 30, 2015 are shown below. The net pension liability was measured as of September 30, 2014, and the total pension liability was determined by an actuarial valuation as of that date:

Total pension liability	\$4,228,909,387
Plan fiduciary net position	<u>1,142,891,375</u>
Employers' net pension liability	3,086,018,012
Plan fiduciary net position as a percentage of the total pension liability	27.03%

\*Based on draft financial statements

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of September 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurements:

- Inflation - 2.85%
- Salary increase - 4.00%, including inflation
- Investment rate of return - 4.42%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Health Annuitant Mortality Table set forward 2 years.

The total pension liability was determined using the level percent of salary Entry Age Normal Cost funding method.

The actuarial assumptions are the same as the assumptions used in the October 1, 2014 funding actuarial valuation. Actuarial valuation involves the projection of benefit payments contributions, and other amounts decades into the future. The System's Board adopted and approved the use of the assumptions and methods. These are the assumptions the actuary used to comply with GASB 67. Additional methods and assumptions used in the actuarial valuation for funding purposes are listed in the actuarial section of the report.

The long-term expected rate of return of 7.5% on pension 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 pension plan's target asset allocation as of September 30, 2014 are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	45%	6.99%
International equity	10%	7.49%
Fixed income	40%	2.59%
Alternatives	<u>5%</u>	4.29%
<b>Total</b>	<b>100%</b>	

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2015*

**4. Net Pension Liability (continued)**

*Discount rate:* The discount rate used to measure the total pension liability was 4.42% as of September 30, 2014. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the increases in the employee contribution rates effective January 1, 2015, 2016 and 2017. Based on those assumptions, the pension 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 pension plan investments of 7.5% was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by projected assets, the yield on a 20-year AA Municipal Bond Index was applied. As of September 30, 2014 that rate was 4.11%.

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability calculated using the discount rate of 4.42%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.42%) or 1-percentage-point higher (5.42%) than the current rate:

	<b>1% Decrease</b> <b>(3.42%)</b>	<b>Current</b> <b>Discount</b> <b>(4.42%)</b>	<b>1% Increase</b> <b>(5.42%)</b>
	<hr/>	<hr/>	<hr/>
Net pension liability	\$3,583,207,103	\$3,086,018,012	\$2,665,637,611

**5. Investments**

*(a) Marketable Securities*

The System's investments in marketable securities are held in trust by a Custodian bank (State Street Bank and Trust Company) on behalf of the System and are managed by several professional investment managers.

The System's board of trustees has established investment policies that place limitations and provide guidelines on amounts that may be invested in certain investment categories. In addition, such policies provide the guidance related to the type of investment transactions that can be entered into. The System's board of trustees authorizes the System to invest in the following:

- United States Government agencies and instrumentalities obligations;
- Bonds or notes which are general obligations of any state in the United States, or of any political subdivision;
- Bonds or other obligations which are payable from revenue or earnings specifically pledged of a public utility, which is municipally owned either directly or indirectly through any civil division, authority, or public instrumentality of the municipality; provided that (a) the municipality has at least 30,000 inhabitants; (b) the utility has been in operation for at least 10 years prior to the date of the investment; (c) bonds or other obligations of such utility have not been in default for any period longer than 30 days; (d) rates for service are fixed and maintained and collected at all times so as to produce

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NOTES TO FINANCIAL STATEMENTS  
Year Ended September 30, 2015

**5. Investments (continued)**

sufficient revenue or earnings to pay all operating and maintenance charges and both the principal and interest on such bonds or obligations; (e) the total investment in this type of security shall not at any time exceed 10 percent of the total investment of the System.

- Bonds or any other evidences of indebtedness issued or guaranteed by any domestic railroad corporation, or in equipment trust certificates, provided that these securities bear a rating of "BBB" or better by any two nationally known security rating agencies. Not more than 2% of total investments should consist of any one issue of these bonds;
- Bonds or other evidences of indebtedness of any domestic public utility corporation provided that these securities and investments bear a rating of "BBB" or better by any two nationally known security rating agencies. Not more than 2% of total investments should consist of any one issue of these bonds;
- Bonds or other evidences of indebtedness of any domestic industrial corporation provided that these securities bear a rating of "BBB" or better by any two nationally known security rating agencies. Not more than 2% of total investments should consist of any one issue of these bonds;
- Bonds or other obligations of the Commonwealth of Puerto Rico or of the Territories of the United States, provided that the investment in any one issue of bonds of these entities should not exceed 10% thereof, and that the total investment in all securities of any one of such entities should be limited to 2% of the total investment account of the System;
- Bonds or other indebtedness issued by foreign governments or foreign corporations provided that (a) these securities bear a rating of "BBB" or better by any two internationally known securities rating agencies, and (b) not more than 2% of total investments should consist of any one issue of these bonds. The aggregate amount to be invested in foreign bonds should be limited to 10% of the market value of the total investments of the System on the date the investment is made;
- Common and preferred stocks of any corporation chartered under the laws of the United States, or of any state, district, or territory thereof or common and preferred stocks of any foreign corporation if listed on any internationally recognized security exchange;

The investment in the stock of any single corporation should not exceed 1% of the market value of the total investment of the fund on the date of purchase. The aggregate amount to be invested in common and preferred stocks should be limited to 60% of the market value of the total investments of the System on the date the investment is made. Investment in foreign stocks should be limited to 10% of the market value of the total investment of the System;

The aggregate amount to be invested in common and preferred stock should be limited to 20% of the book value of the total investments of the System on the date the investment is made.

## EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

### NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2015

#### 5. Investments (*continued*)

- Mutual funds of any corporation chartered under the laws of the United States, or any state, district, or territory thereof if listed on a national securities exchange;
- Mortgage loans to members or retirees of the System for initial construction phases of a home, for purchase of a home, or for capital improvements of a home;
- Chattel mortgages to members or retirees of the System for the purchase of new automobiles, which may not exceed \$18,000;
- Personal loans to active members and those members who have retired and are entitled to annuities, provided such loans do not exceed \$50,000 for both active members and retirees. In addition, effective fiscal year 2009 retirees have the option of refinancing their personal loans provided the original amount is paid down by at least 50%. Effective March 25, 2014, the policy changed to allow retirees to refinance their loans regardless of the outstanding balance;
- Loans to active members or retirees of the System solely for the purchase of land;
- Real property purchased and/or developed by the board of trustees for sale for homeownership purposes;
- Loans to approved businesses by the Board of Trustees as alternative investments.

#### (b) *Investment Loans*

##### **VI Property Tax Revenue Anticipation Note**

On November 14, 2011, the System entered into a loan agreement with the Government of the U.S. Virgin Islands (GVI) in the amount of \$13,000,000 at an interest rate of 4.91% and a maturity date of December 15, 2016. The security for the note is the pledged real property tax receipts from the delinquent real property tax receivables, including penalties and interest for tax years prior to and including 2005 totaling approximately \$36,000,000. At September 30, 2015, the outstanding balance is \$5,816,181.

In legislative action passed in November 2012, the System will be allowed to use funds received in excess of the stipulated payment under the terms of the loan agreement, to fund the shortfall in the prior year's government contributions.

Only individuals who will have retired between October 1, 2010 and January 1, 2013, will benefit from the legislation.

##### **KAZI Foods of the Virgin Islands Inc.**

On September 24, 2013, the System entered into a loan agreement with KAZI Foods of the Virgin Islands, Inc. in the amount of \$6,000,000 at an interest rate of 6.25% and a maturity date of October 23, 2023. At September 30, 2015, the outstanding principal balance on the loan is \$6,000,000.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS  
Year Ended September 30, 2015

5. Investments (continued)

(c) Limited Partnership

The total value of the limited partnership investments at September 30, 2015 is as follows:

	<u>2015</u>
Attilanus	\$ 26,403,987
Fisher	264,563
Mesirow	<u>19,971,214</u>
Total Limited Partnership	<u>\$ 46,639,764</u>

On August 15, 2006, the System invested \$50,000,000 in the limited partnership, Attilanus L.P. (the Fund). The partnership purchases senior life insurance policies for individuals who are age 65 and older and have an average life expectancy of 5 to 7 years. A senior life settlement provides cash payment in exchange for the assignment of an ownership interest in the life insurance policy insuring the life of an individual. The partnership agreement is effective through December 31, 2017 and may be extended for an additional two-year period. Limited partners are not permitted to withdraw funds from the partnership.

The System is authorized to invest in life settlement policy contracts provided that:

- The investment is in a group of life insurance policies, with a minimum number of 100 measured lives.
- The face value of any single policy investment by the System does not exceed the greater of \$5,000,000 or 2% of the aggregate face value of policy investments by the System.
- The aggregate face value of policy investments by the System on any individual life does not exceed the greater of 10,000,000 or 1% of the aggregate face value of policies purchased as investments by the System.

On June 12, 2008, Attilanus accepted a structured purchase offer of its settlement life insurance policy portfolio from Coit Capital, a division of Riviere Securities, Ltd. This purchase was executed through a special purpose entity, Life Settlements Absolute Return (LASAR), which issued \$40,000,000 in 9% preference notes, \$24,000,000 in 9.5% mezzanine notes and residual notes and \$13,700,000 in cash. From this transaction, the System received a distribution in the form of a return of capital totaling \$8,163,726. It is expected that future sale of the mezzanine notes will result in additional return of capital to the System and other investors.

Senior life settlement contracts do not have active trading markets. The System obtained an independent valuation of the investment in 2012; however, the conclusion was not definitive. The fair value of the limited partnership investment of \$26,403,987 at September 30, 2015 is based on management's decision to reduce the carrying value of the investment.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2015*

**5. Investments (continued)**

On July 18, 2012, the System executed a loan with Attilanus. Under the terms of the agreement with Attilanus, a credit facility ("Facility") with a total of \$10,000,000 was made available to meet on-going premium costs and certain other expenses. The terms of the Facility require interest payments at a rate of 15% per annum and will be paid in accordance with the Trust Indenture. The facility is structured as a note where principal repayments eliminate the future amount available. The entire loan principal and all accrued but unpaid interest shall be repaid at the date of termination of the agreement on July 10, 2017. The outstanding balance at September 30, 2015 was \$10,000,000.

**(d) Net Appreciation/Depreciation in Fair Value of Investments, Interest and Dividends**

The fair value of the System's investments at September 30, 2015 amounted to \$705,463,235. The investments generated interest and dividend income of \$8,209,160 for the year ended September 2015.

In addition, the System's investments including gains and losses on investments bought and sold, as well as held during the year, depreciated in value by \$14,295,128 in fiscal year 2015 as follows:

	<b>2015</b>
U.S. government and agency obligations	\$ 849,323
Corporate obligations	(510,739)
Foreign bonds and government obligations	493,899
Common and preferred stock - U.S.	1,090,680
Common and preferred stock - foreign	(1,066,049)
Mortgage and asset-backed securities	(101,651)
Commingled and mutual funds	(13,815,951)
Real estate investment trust	5,939,671
Investment loans	(3,695,002)
Limited partnership	(3,479,309)
Totals	<u>\$ (14,295,128)</u>

**(e) Custodial Credit Risk-Deposits**

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Cash and cash equivalents consist of money market accounts.

As required by law, banks or trust companies designated as depositories of public funds of the Government and its various agencies, authorities, and instrumentalities are to maintain corporate surety bonds or pledge collateral satisfactory to the U.S. Virgin Islands Commissioner of Finance to secure all funds deposited.

At September 30, 2015, all cash and cash equivalents were covered by federal deposit insurance, corporate surety bonds, or by collateral held by the System.



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NOTES TO FINANCIAL STATEMENTS  
Year Ended September 30, 2015

**5. Investments (continued)**

**(f) Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer of securities. The System's investment policy (the Investment Policy) establishes limitations on portfolio composition by investment type to limit its exposure to concentration of credit risk.

There were no investments in any one issuer that represent 5% or more of total investments.

**(g) Risk**

In accordance with GASB Statement No. 40, investments require certain disclosures regarding policies and practices, and the risks associated with them. The credit risk, (including custodial credit risk and concentration of credit risk), the interest rate risk, and the foreign currency risk are discussed in the following paragraphs. Amounts represent the pro-rata share of the underlying investments as required by GASB Statement No. 40. These are held in investment pools and reported as such in the financial statements.

**(h) Credit Risk**

The Investment Policy is designed to minimize credit risk by restricting authorized investments to only those investments permitted by the statute, subject to certain additional limitations. These additional limitations consist of prohibitions against investments in derivative securities, options, futures or short positions. However, the Investment Policy allows for investments in mortgage pass-through securities.

The fair value and credit ratings of debt securities (excluding U.S. government obligations and obligations expressly guaranteed by the U.S. government), money market funds, mutual funds, and other pooled investments of fixed income securities at September 30, 2015 include the following:

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2015*

**5. Investments (continued)**

**Standard & Poor's Credit Ratings:**

	<u><b>Fair Value</b></u>	<u><b>Credit Ratings</b></u>
Corporate obligations	\$ 323,370	AAA
Corporate obligations	595,643	AA+
Corporate obligations	721,152	AA
Corporate obligations	315,819	AA-
Corporate obligations	629,008	A+
Corporate obligations	1,586,998	A
Corporate obligations	4,406,562	A-
Corporate obligations	6,437,388	BBB+
Corporate obligations	2,872,897	BBB
Corporate obligations	285,319	BBB-
Corporate obligations	71,790	Not Available
Investment loans	26,613,142	Not Rated
Mortgage and asset-backed securities	5,036,083	AAA
Mortgage and asset-backed securities	271,649	AA+
Mortgage and asset-backed securities	772,229	AA
Mortgage and asset-backed securities	579,757	AA-
Mortgage and asset-backed securities	338,797	A+
Mortgage and asset-backed securities	544,160	A-
Mortgage and asset-backed securities	21,772,761	Not Available
Commingled and mutual funds	377,954,449	Not Rated
Total	<u>\$ 452,128,973</u>	

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS  
 Year Ended September 30, 2015

5. Investments (continued)

Moody's Investor Services Credit Ratings:

	<u>Fair Value</u>	<u>Credit Ratings</u>
Corporate obligations	\$ 323,370	Aaa
Corporate obligations	595,643	Aa1
Corporate obligations	243,774	Aa3
Corporate obligations	1,259,604	A2
Corporate obligations	2,036,618	A3
Corporate obligations	2,896,066	Baa1
Corporate obligations	5,848,371	Baa2
Corporate obligations	3,888,933	Baa3
Corporate obligations	1,081,777	Not Rated
Corporate obligations	71,790	Aaa
Investment loans	26,613,142	Not Rated
Mortgage and asset-backed securities	7,057,753	Aaa
Mortgage and asset-backed securities	335,866	Aa1
Mortgage and asset-backed securities	20,737,500	Aa2
Mortgage and asset-backed securities	1,184,317	Aa3
Commingled and mutual funds	377,954,449	Not Available
Total	<u>\$ 452,128,973</u>	

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2015*

**5. Investments (continued)**

Cash and cash equivalents and other investments at September 30, 2015 include the following:

	<u>Fair Value</u>	<u>Credit Ratings</u>	
		<u>Standard &amp; Poor</u>	<u>Moody's</u>
Cash and cash equivalents	\$ 57,177,831	Not Rated	Not Rated
Common stock - U.S.	169,924,687	Not Rated	Not Rated
Real estate investment trust	2,057,574	Not Rated	Not Available
U.S. government & agency obligations	594,458	Not Available	Aaa
U.S. Treasury bonds	4,519,416	Not Available	Aaa
U.S. Treasury bonds	910,790	Not Available	Not Available
U.S. Treasury notes	6,452,717	Not Available	Aaa
U.S. Treasury notes	4,933,739	Not Available	Not Available
Municipal bonds	840,134	AAA	Aaa
Municipal bonds	339,222	AA+	Aa1
Municipal bonds	560,320	AA	Aa2
Municipal bonds	591,820	A	Aa3
Limited partnership	46,639,764	Not Rated	Not Rated
Total cash, cash equivalents and other investments	<u>\$ 295,542,472</u>		

The total System's cash, cash equivalents and investment securities at September 30, 2015 consists of:

Fixed income investments	\$ 452,128,973
Cash, cash equivalents, and other Investments	<u>295,542,472</u>
	<u>\$ 747,671,445</u>
Cash and cash equivalents	\$ 57,177,831
Investments, at fair value	<u>690,493,614</u>
	<u>\$ 747,671,445</u>

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2015*

**5. Investments (continued)**

**(i) Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon, and geography. Investment managers retained by the System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from the System's board of trustees.

As of September 30, 2015, the System had the following investments and maturities:

Investment Type	Fair Value	Maturity (in years)				
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years	No Stated Maturity Date
U.S. government and agency obligations	\$ 594,459	\$ -	\$ 594,459	\$ -	\$ -	\$ -
U.S. Treasury notes	11,386,456	307,122	6,683,126	4,396,208	-	-
U.S. Treasury bonds	5,430,206	-	2,477,298	-	2,952,908	-
Municipals bonds	2,331,495	-	217,471	339,222	1,774,802	-
Commingled mutual funds	377,954,449	-	-	-	-	377,954,449
Corporate obligations	18,245,946	328,299	5,923,111	5,437,974	6,556,562	-
Mortgage and asset-backed securities	29,315,436	-	3,552,556	1,689,537	24,073,343	-
Investment Loans	26,613,142	-	15,816,181	10,796,961	-	-
Totals	<u>\$471,871,589</u>	<u>\$ 635,421</u>	<u>\$35,264,202</u>	<u>\$22,659,902</u>	<u>\$35,357,615</u>	<u>\$377,954,449</u>

**(j) Custodial Credit Risk - Investments**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. With the exception of underlying securities on loans secured by noncash collateral, the System's entire investment portfolio was held with a single third-party custodian in the System's name as of September 30, 2015. At September 30, 2015, the System had no underlying securities on loan secured by noncash collateral.

Cash collateral held for securities lending transactions is invested in a collective investment pool maintained by the securities lending agent.

**(k) Foreign Currency Risk**

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment or deposit. The System has no general investment policy with respect to foreign currency risk.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2015*

**5. Investments (continued)**

**(l) Foreign Currency Risk - Investments**

At the end of fiscal year 2015, all the foreign investments were repatriated to other funds.

The following foreign currency risk analysis schedule shows the fair value of investments that are exposed to this risk by currency denomination and investment type. This provides an indication of the magnitude of foreign currency risk for each currency.

Foreign Currency Risk Analysis

Fair value of cash equivalents and investments exposed to foreign currency risk by currency as of September 30, 2015:

<u>Currency</u>	<u>Cash Equivalents</u>	<u>Government Obligations Foreign</u>	<u>Foreign Bonds</u>	<u>Total Exposure</u>
Australian Dollar	\$ 45,210	\$ 1,699,523	\$ -	\$ 1,744,733
Canadian Dollar	766	-	-	766
Euro Currency	13,568	1,844,306	1,203,500	3,061,374
Hong Kong Dollar	1	-	-	1
Pound Sterling	72	-	736,256	736,328
Singapore Dollar	9	-	-	9
Swiss Franc	8	-	-	8
Totals	<u>\$ 59,634</u>	<u>\$ 3,543,829</u>	<u>\$ 1,939,756</u>	<u>\$ 5,543,219</u>

**(m) Forward Currency Exchange Contracts**

The System enters into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates and to facilitate the settlement of foreign security transactions. A forward contract is an agreement to buy or sell a specific amount of currency at a specific delivery or maturity date for an agreed upon price. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contracts. Changes in the market value of open and closed forward contracts are recorded within interest, dividends, and other income in the statement of changes in plan net position. During the year ended September 30, 2015, the System did not engage in any forward currency exchange contracts

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS  
Year Ended September 30, 2015

5. Investments (continued)

(n) Member Loans

The System's investments in member loans, net of allowances for loan losses, at September 30, 2015 were \$159,217,924. Such investments in member loans generated interest income of \$12,529,968 for the year ended September 30, 2015. The average interest rate was 8% for the year ended September 2015.

(o) Real Estate

The investment in the Havensight Mall has an appraised market value of \$41,000,000.

The investment in Carambola NW-LLC d/b/a Renaissance St. Croix Carambola Beach Resort and Spa appraised value is \$8,000,000 for the year ended September 30, 2015. Rental Income net of related expenses generated a net loss of \$3,541,811 for the year ended September 30, 2015. The System's appraised value of land is \$7,627,158 for the year ended September 30, 2015.

The System Facilities - St. Thomas/St. Croix are partially an investment of the System's retirement funds in real estate held for rent or lease. The System utilizes portions of the buildings in the operation of the System. Depreciation is provided for only those portions of the buildings that are utilized in the operation of the System. The remaining areas of the building are leased to other government agencies and commercial tenants. In accordance with Government Accounting Standards Board (GASB) No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, assets held for lease must be presented at fair value.

The investment in the System Facilities --- St. Thomas/St. Croix as of September 30, 2015 is as follows:

	<b>2015</b>
Land	\$ 7,627,158
Building, improvements, and fixtures	21,101,478
	<u>28,728,636</u>
Less: accumulated depreciation and amortization	4,843,011
Totals	<u>\$ 23,885,625</u>

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NOTES TO FINANCIAL STATEMENTS  
*Year Ended September 30, 2015*

**6. Securities Lending Transactions**

The Government's statutes permit the System to participate in securities lending transactions, and the System has, via a securities lending authorization agreement (the agreement), authorized State Street Bank and Trust Company (the custodian) to lend securities to broker-dealers and banks pursuant to a form of loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. The System does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2015 as to the amount of loans the custodian can make on behalf of the System.

Loans are generally terminable on demand. The collateral received shall (i) in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the loaned securities, (ii) in the case of loaned securities which are not denominated in the U.S. dollars or whose primary trading market is not located in the United States, have a market value of 105% of the market value of the loaned securities, or (iii) have a higher value as may be applicable in the jurisdiction in which the loaned securities are customarily traded. Such collateral should be kept, at a minimum, at 100% of the market value of the security for all borrowers throughout the outstanding period of the loans.

As of September 30, 2015, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. Under the terms of the agreement, the custodian must indemnify the System for losses attributable to violations by the custodian under the "Standard of Care" clause described in the agreement. There were no such violations during the fiscal year 2015, and there were no losses during either fiscal year resulting from the default of the borrowers or the custodian. The risk of any loss of collateral or investment of cash collateral (including a loss of income or principal, or loss of market value thereon) lies with the System, except for losses resulting from negligence or intentional misconduct of the custodian in performing the duties described in the Agreement with respect to collateral.

In lending securities, cash collateral is invested, together with the cash collateral of other lenders, in a collective investment pool. As of September 30, 2015, such investment pool had a weighted average maturity and average expected maturity of 31 days and 100 days respectively. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. As of September 30, 2015, the fair value of securities on loan amounted to \$77,952,497, which consisted of U.S. government and agency obligations, fixed income, and equity corporate securities. The total collateral held by the System's Custodian or other banks was valued at \$78,999,206 including \$65,198,931 of cash, as of September 30, 2015. Investments made with cash collateral are reported as an asset of the System with a corresponding liability in the accompanying statement of fiduciary net position.



**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2015*

**6. Securities Lending Transactions (continued)**

The following represents the balances relating to the securities lending transactions as of September 30, 2015:

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Cash Collateral Investment Value</u>	<u>Securities Collateral Investment Value</u>
Lent for Cash Collateral:			
U.S. government and agency obligations	\$ 4,604,948	\$ 4,699,116	\$ -
Corporate bonds	180,661	184,515	-
Common and preferred stocks	59,647,104	60,315,300	-
Lent for Securities Collateral:			
Corporate bonds	609,573	-	592,087
Common and preferred stocks	12,910,210	-	13,208,188
Totals	<u>\$ 77,952,496</u>	<u>\$ 65,198,931</u>	<u>\$ 13,800,275</u>

**7. Reserved Assets**

Reserved assets represent amounts set aside for use in the awarding of scholarships to the System's members.

Reserved assets consist of the following:

	<u>2015</u>
Cash	\$ 22,359
Certificates of deposit	4,076
Totals	<u>\$ 26,435</u>

**8. Due from Agencies of the Government of the U.S. Virgin Islands**

At September 30, 2015, the amount recorded as due from Agencies of the Government of the U.S. Virgin Islands was \$5,501,438. Included in the amount due from Agencies of the Government of the U.S. Virgin Islands is an estimated material amount owed by one Agency. Management of the System and the Agency are in discussions and the System's Management is confident that any adjustment to the receivable as a result of the final agreement will not be material to the financial statements.

**9. Due from Agencies of the Government of the U.S. Virgin Islands**

At September 30, 2015, the amount recorded as due from Agencies of the Government of the U.S. Virgin Islands was \$5,501,438. Included in the amount due from Agencies of the Government of the U.S. Virgin Islands is an estimated material amount owed by one Agency. Management of the System and the Agency are in discussions and the System's Management is confident that any adjustment to the receivable as a result of the final agreement will not be material to the financial statements.

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**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2015*

**10. Internal Revenue Matching Fund**

On December 19, 2013 Pursuant to Act No. 7261 Section 13 (Bill No. 29-0123) and enabling legislation, the System should have received \$7,000,000 per year from the Internal Revenue Matching Fund. Subsequent to September 30, 2015 the System received a payment of \$7,000,000 under Act 7261 from the Government of the U.S. Virgin Islands.

**11. Risks of Loss**

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Claims against the System, Board of Trustees or any of its staff as a result of an actual or alleged breach of fiduciary duty are insured with a commercial insurance policy. Coverage provided is limited to \$5,000,000 with a deductible amount of \$100,000. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

**12. Litigation**

The System is a defendant in legal claims arising from its normal operations. It is management's opinion, after consulting with its legal counsel that losses, if any, resulting from these claims will not have a material effect on the System's financial position. The System is also a plaintiff in various class action suits, whose outcomes are currently undeterminable.

**13. Management Fees and Custodian Fees**

The custodian and investment advisers of the System's investment fund are entitled to annual fees computed on the basis of the market value of the System's investment fund assets and reimbursement of out-of-pocket expenses incidental to custodial duties. Such fees amounted to \$3,995,241 for the year ended September 30, 2015.

**14. Subsequent Events**

Effective June 2016, The System received \$7,000,000 from the Internal Revenue Matching Fund as stipulated under Act No. 7261 Section 13 (Bill No. 29-0123). The System's Management has evaluated subsequent events through April 25, 2016, the date the financial statements were available to be issued. The accompanying financial statements recognize the effects of subsequent events that provided evidence about conditions that exist at the balance sheet date, including the estimates inherent in the process of preparing financial statements. The accompanying financial statements do not recognize the effect of subsequent events that did not exist at the balance sheet date, but disclosures of such events, if any, are included in the accompanying notes.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY**  
*September 30, 2014*

**EXHIBIT 1**

**Schedule of Changes in Net Pension Liability**

<b>September 30:</b>	<b>2014</b>
<b>Total pension liability</b>	
Service cost	\$ 65,274,936
Interest	191,113,749
Change in contribution rates	(40,421,809)
Differences between expected and actual experience	35,917,905
Changes in assumptions	241,527,329
Benefit payments, including refunds of employee contributions	(247,069,503)
<b>Net change in total pension liability</b>	<u>246,342,607</u>
<b>Total pension liability – beginning</b>	<u>3,982,566,780</u>
<b>Total pension liability – ending (a)</b>	<u>\$4,228,909,387</u>
<b>Plan fiduciary net position</b>	
Contributions – employer	\$ 68,298,617
Contributions – employee	34,020,107
Net investment income	60,326,921
Benefit payments, including refunds of employee contributions	(247,069,503)
Administrative expense	(18,867,491)
Other income	3,573,611
<b>Net change in plan fiduciary net position</b>	<u>(99,717,738)</u>
<b>Plan fiduciary net position – beginning</b>	<u>1,252,509,113</u>
<b>Plan fiduciary net position – ending (b)</b>	<u>1,142,891,375</u>
<b>Net pension liability – ending (a) – (b)</b>	<u>\$3,086,018,012</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	27.03%
<b>Covered employee payroll</b>	\$355,603,633*
<b>Net pension liability as percentage of covered employee payroll</b>	865.04%

*\*Covered employee payroll as reported in the participant data as of September 30, 2014.*

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

*See accompanying independent auditor's report and notes to required supplementary information.*

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY**  
*September 30, 2014*

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**EXHIBIT 2**

**Notes to Schedule of Changes in Net Pension Liability**

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*Benefit Changes:* There have been no benefit changes since September 20, 2013. However, effective January 1, 2015, the contribution rate for Tier 1 and Tier 2 employees increased 1% per year for three years and the employer contribution rate increase to 20.5%.

*Change of Assumptions:* The discount rate used to measure the total pension liability decreased from 4.87% as of September 30, 2013 to 4.42% as of September 30, 2014.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**EXHIBIT 3**

**Schedule of Employer Contributions – Last Ten Fiscal Years**

<b>Year Ended September 30:</b>	<b>Actuarially Determined Contributions</b>	<b>Contributions in Relation to the Actuarially Determined Contributions</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered- Employee Payroll</b>	<b>Percentage Contributed</b>
2006*	\$131,059,471	\$65,061,430	\$(65,998,041)	\$355,462,276	18.30%
2007	137,797,268	60,778,382	(77,018,886)	394,595,844	15.40%
2008*	138,488,871	75,871,146	(62,617,725)	419,161,255	18.10%
2009*	147,490,851	80,177,004	(67,313,847)	433,549,406	18.49%
2010*	157,817,709	77,004,630	(80,813,079)	458,154,309	16.81%
2011*	162,841,336	80,849,762	(81,991,574)	440,026,457	18.37%
2012	178,644,349	66,677,155	(111,967,194)	403,473,988	16.53%
2013*	172,439,842	64,431,322	(108,008,520)	381,012,309	16.91%
2014	189,715,251	68,298,617	(121,416,634)	370,131,865	18.45%
2015	200,089,791	72,287,934	(127,801,857)	355,603,633	20.35%

*\*Estimated based on prior year's actuarial valuation*

*See accompanying independent auditor's report and notes to required supplementary information.*

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS**

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**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

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**EXHIBIT 4**

**Notes to Schedule of Employer Contributions**

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<b>Valuation date</b>	Actuarially determined contributions are calculated as of October 1
<b>Methods and used assumption to determine contribution rates:</b>	
<b>Actuarial cost method</b>	Entry Age Normal Cost Method
<b>Amortization method</b>	Level dollar, closed group
<b>Amortization period</b>	20 years open amortization
<b>Asset valuation method</b>	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial value, and is recognized over a five-year period, if necessary, to be within 20% of the market value.
<b>Actuarial assumptions:</b>	The actuarial assumptions are the same as the assumptions used in the October 1, 2014 funding actuarial valuation.