EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
Year Ended September 30, 2014
AND
INDEPENDENT AUDITOR'S REPORT

BERT SMITH & Co.

Certified Public Accountants and Management Consultants

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
Year Ended September 30, 2014

TABLE OF CONTENTS

BERTSMITH &Co.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements
We have audited the accompanying financial statements of the Employees' Retirement System of the Government of the Virgin Islands (the System), a component unit of the Virgin Islands Government, as of and for the year ended September 30, 2014 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our 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 Virgin Island's overall financial position and results of operations as of September 30, 2014.

1090 Vermont Avenue, N.W. ❖ Suite 920 ❖ Washington, D.C. 20005 ❖ PHONE 202.393.5600 ❖ FAX 202.393.5608 ❖ INTERNET www.bertsmithco.com

Basis of Qualification
As discussed in Note 6 (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 $33,004,984 in the financial statements.

Opinion
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to determine the fair value of the System's interest in the limited partnership, the financial statements 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 Virgin Islands as of September 30, 2014 and for the year 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, 2013, and we expressed a modified audit opinion on those audited financial statements in our report dated June 19, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2013 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 3 through 13, and the Schedule of Changes in the Employers' Net Pension Liability and the Schedule of Employers' Contributions on pages 37 through 40 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 which 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 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 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.

BertSmith & Co.

June 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2014

This Management's Discussion and Analysis (MD&A) of the Employees' Retirement System of the Government of the 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 Net Position
- Statement of Changes in Net Position
- Notes to the Financial Statements
- Required Supplementary Information

The *Statement of 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 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. 50, "*Pension Disclosures – an Amendment of GASB Statements No. 25 and No. 27*."

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
Year Ended September 30, 2014

FINANCIAL ANALYSIS OF THE SYSTEM AS A WHOLE

Fiduciary Net Position
September 30, 2014
(Dollar amounts expressed in thousands)

Fiduciary Net Position	2014	Restated 2013	Increase (Decrease)	Percentage
Cash, cash equivalents and investments	$ 950,615	$ 1,045,763	$ (95,148)	(9.10%)
Foreign Currency Exchange Contracts	239	-	239	100%
Member loans, net	157,112	148,069	9,043	6.11%
Real estate, net	71,219	96,840	(25,621)	(26.46%)
Other assets	16,087	17,936	(1,849)	(10.31%)
Total assets	1,195,272	1,308,608	(113,336)	(8.66%)
Stock lending transactions	33,485	52,361	(18,876)	(36.05%)
Other liabilities	18,896	13,638	5,258	38.55%
Total liabilities	52,381	65,999	(13,618)	(20.63%)
Total net position	$1,142,891	$ 1,242,609	$ (99,718)	(8.02%)

At September 30, 2014 and 2013, the System's total assets were $1.2 billion and $1.3 billion, respectively. This decrease in total assets resulted mainly from the net effect of the following:

- The cash and cash equivalents decreased by approximately $11.9 million as of September 30, 2014 from approximately $63.36 million as of September 30, 2013 to approximately $51.4 million as of September 30, 2014. The cash and cash equivalents excluding interest bearing deposits are segregated as follows *(dollar amounts in thousands)*:

	2014	2013	Increase (Decrease)
Cash in money market accounts	$ 26,745	$ 46,133	$ (19,388)
Cash in operational accounts	24,694	17,229	7,465
Total cash and cash equivalents	$ 51,439	$ 63,362	$ (11,923)

- The Interest bearing deposits with financial institutions accounted for $14.74 million and $14.63 million, as of September 30, 2014 and 2013, respectively. The increase is the result of interest earned on the System's certificates of deposits.

- The decrease in money market accounts of approximately $19.4 million reflects the System's needs to continuously withdraw funds for operating expenses, and the increasing pension expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
Year Ended September 30, 2014

- Cash, cash equivalents and investments decreased approximately $95.1 million, which represented a 9.10% decrease over September 30, 2013. Both the domestic and international common stock portfolios had positive performance for the fiscal year. For the year ended September 30, 2014 the total return on the investment portfolio amounted to 5.2%. The following is also noted:

  - The invested cash collateral received under lending transactions, which is included in cash, cash equivalents and investments, decreased to approximately $33.5 million as of September 30, 2014 from approximately $52.4 million as of September 30, 2013. This decrease of $18.9 million was offset by a comparable decrease 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 decreased $4.5 million to approximately $244 thousand as of September 30, 2014 from approximately $4.7 million as of September 30, 2013.

  - The investment loans increased approximately $3.6 million to approximately $25.6 million as of September 30, 2014 from approximately $22 million as of September 30, 2013.

- The members' loans increased $9.2 million to approximately $158.3 million as of September 30, 2014 from approximately $149.1 million as of September 30, 2013. The 6.19% increase was attributable primarily to the increase in personal loans granted during the year.

- The real estate decreased approximately $25.6 million primarily due to the $25.6 million Havensight Mall write down as a result of the 2014 appraisal.

- Total other assets decreased by approximately $1.8 million primarily due to the net effect of decrease in interest payments on outstanding debt, and the increase in outstanding payments due from Central Government and other government agencies.

At September 30, 2014, the System's total liabilities were $52.4 million compared with $66 million at September 30, 2013. The decrease is primarily due to:

- Payable for collateral received under securities lending transactions decreased by approximately $18.9 million when compared to prior year. This decrease 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
Year Ended September 30, 2014

Comparison of 2014 and 2013 Additions, Deductions and Changes in Fiduciary Net Position

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

Additions, Deductions and Changes in Fiduciary Net Position	**2014**	**Restated 2013**	**Increase (Decrease)**	**Percentage**
Net appreciation in fair value of investments	$ 37,046	$ 71,664	$ (34,618)	(48.31%)
Interest, dividends, and other	26,994	31,679	(4,685)	(14.79%)
Rental income, net	(754)	2,932	(3,686)	(125.72%)
Less investment management fees and custodian fees, borrowers' rebates and other agent fees on securities lending transactions, and other expenses	(2,959)	(4,651)	(1,692)	(36.38%)
Total investment income	60,327	101,624	(41,297)	(40.64%)
Total contribution income	102,319	98,522	3,797	3.85%
Other income	3,573	1,272	2,301	180.90%
Total additions	166,219	201,418	(35,199)	(17.48%)
Benefits paid directly to members	239,713	234,362	5,351	2.28%
Refunds of members' contributions	7,356	6,203	1,153	18.59%
Administrative and operational Expenses	18,868	19,582	(714)	(3.65%)
Total deductions	265,937	260,147	5,790	2.23%
Net decrease	$ (99,718)	$ (58,729)	$ (40,989)	(69.79%)

For the year ended September 30, 2014, operations resulted in a net decrease in the plan net assets to approximately $99.7 million when compared to the net decrease of $58.7 million for the year ended September 30, 2013. This net decrease of $41 million in the plan net assets resulted from the net effect of the following:

- **Net Appreciation in Fair Value of Investments**
  Total net appreciation in fair value of investments for the year ended September 30, 2014 was approximately $37 million, reflecting a 34.62% decrease when compared to the $71.6 million net appreciation reported for the year ended September 30, 2013. This change was primarily driven by a 5.2 percent return for the fiscal year 2014 versus an 11.2 percent return for the prior fiscal year; and a decline in the market value of Havensight Mall.

  Domestic common stock appreciation in fair value for the year ended September 30, 2014 was approximately $21.6 million, reflecting a 66.87% decrease compared to the $65.1 million net appreciation reported for the year ended September 30, 2013. This was largely driven by domestic equity's return of 16.3 percent for the fiscal year 2014 versus a 22.6 percent return for the prior fiscal year, the end of quantitative easing by the US Federal Reserve and a decline in oil prices impacted domestic returns during the year. Additionally, the entire international equity allocation has been moved to index funds, and has contributed to the negative net change.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
Year Ended September 30, 2014

	2014	2013	Increase (Decrease)	Percentage
U.S. government and agency obligations	$ (163,995)	$ (4,228,823)	$ 4,064,828	96.12%
Corporate obligations	660,204	(3,211,360)	3,871,564	120.56%
Foreign bonds and government obligations	(107,086)	(313,433)	206,347	65.83%
Common and preferred stock – U.S.	21,562,772	65,092,696	(43,529,924)	(66.87%)
Common and preferred stock –foreign	(99,380)	8,270,019	(8,369,399)	(101.20%)
Mortgage and asset-backed securities	344,823	(4,038,804)	4,383,627	108.54%
Mutual funds	50,186,672	23,357,298	26,829,374	114.87%
Real estate investment	270,894	134,575	136,319	101.30%
Investment loans	(6,999,400)	(2,750,000)	(4,259,400)	154.52%
Limited partnership	(3,009,658)	(381,624)	(2,628,034)	(688.64%)
Totals	$ 62,645,846	$ 81,930,544	$ (19,284,698)	(23.54%)

Commingled/mutual funds appreciation in fair value for the year ended September 30, 2014 was approximately $50.2 million, reflecting a 114.87% increase compared to the $23.4 million net appreciation reported for the year ended September 30, 2013. This was largely driven by BlackRock Russell 1000 Growth Index's return of 19.2%, the BlackRock Emerging Index's return of 4.3%, and the global bond fund's return of 5.1% for the fiscal year 2014. This is in contrast to returns of 19.6%, 26.9% and (.08%) for the S&P 500, international equity and global bonds, respectively. The addition of international equity was a primary driver to the net change over the prior fiscal year.

Fixed income consists of U.S. Government and Agency, Corporate, Mortgage-backed, Asset-backed, and Foreign bonds. Fixed income net appreciation in fair value for the year ended September 30, 2014 was approximately $(734) thousand compared to the $11.8 million net depreciation for the year ended September 30, 2013. The composition of the net appreciation and depreciation is as follows:

- U.S. Government and Agencies – ($164 thousand)
- Corporate – $660 thousand
- Mortgage and Asset-backed – $345 thousand
- Foreign Bonds and Government Obligations – ($107 thousand)

This was largely driven by an approximate return of 2.7 percent for the fiscal year 2014. This is in contrast to an approximate negative return of 1.5 percent in the prior fiscal year 2013.

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, 2014, the asset allocation was slightly out of line with the System's target allocation. Capital management and the Board of Trustees, under advisement from the financial advisors, will continue to monitor managers responsible for investing on the System's behalf.

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

  The net depreciation in the fair value of real estate was largely due to an independent appraisal of Havensight Mall as of October 2014. The value of the Havensight Mall was adjusted by $25.6 million in fiscal year 2014 to reflect its fair market value consistent with the implementation of GASB No. 25.

- **Interest, Dividends, and Other**

  Total interest, dividends, and other decreased to approximately $4.7 million for the year ended September 30, 2014 compared to approximately $31.7 million for the year ended September 30, 2013 The decrease of $4.7 million was due primarily to the net combination of the following factors: interest income decreased approximately $13.2 million and investment and dividend increased approximately $8.5 million.

- **Investment Management Fees and Custodian Fees, Borrower' Rebates and Other Agent Fees on Securities Lending Transactions, and Other Expenses**

  The investment and other fees decreased to approximately $1.7 million for the year ended September 30, 2014 from approximately $4.7 million for the year ended September 30, 2013.

- **Contribution Income**

  Total contribution income increased by approximately 3.85% or $3.8 million to $102.3 million in fiscal year 2014 from $98.5 million in fiscal year 2013. This was due primarily to members retiring, which resulted in the payment of the employers' share of delinquent prior years contributions for those who had entered into retirement. This is further reflected in an increase in benefits paid to members by approximately 2.28% or 5.3 million and an increase of contributions refunds of 18.59% or $1.2 million over Fiscal 2013.

- **Other Income**

  Other income increased to $2.3 million for fiscal year ended September 30, 2014 from approximately $1.3 million dollars in fiscal year ended September 30, 2013.

- **Benefits Paid Directly to Members**

  Benefits paid directly to members increased to approximately $239.7 million for the year ended September 30, 2014 from approximately $234.4 million for the year ended September 30, 2013. This increase of 2.28% or $5.4 million was due primarily to the net effect of annuity paid which includes retro payment from prior period; regular monthly annuity; duty connected disability; and death benefits.

- **Administrative and Operational Expenses**

  Administrative and operational expenses decreased by approximately $714 thousand to approximately $18.9 million for the year ended September 30, 2014 from $19.6 million for the year ended September 30, 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
Year Ended September 30, 2014

Comparison of 2013 and 2012 Assets, Liabilities, and Net Position

Condensed assets, liabilities, and net assets are presented below *(dollar amounts in thousands)*:

Net Position	Restated 2013	2012	Increase (Decrease)	Percentage
Cash, cash equivalents and investments	$1,045,763	$ 1,189,714	$ (143,951)	(12.10%)
Member loans, net	148,069	143,806	4,263	2.96%
Real estate, net	96,840	95,600	1,240	1.30%
Other assets	17,936	17,552	384	2.19%
Total assets	1,308,608	1,446,672	(138,064)	(9.54%)
Total liabilities	65,999	145,334	(79,335)	(54.59%)
Total net position	$1,242,609	$ 1,301,338	$ (58,729)	(4.51%)

At September 30, 2013 and 2012, the System's total assets were $1.32 billion and $1.45 billion, respectively. This decrease in total assets resulted mainly from the net effect of the following:

- The cash and cash equivalents decreased by approximately $25.5 million as of September 30, 2013 from approximately $88.9 million as of September 30, 2012 to approximately 63.4 million as of September 30, 2013. The cash and cash equivalents excluding interest bearing deposits are segregated as follows *(dollar amounts in thousands)*:

	2013	2012	Increase (Decrease)
Cash in money market accounts	$ 46,133	$ 62,742	$ (16,609)
Cash in operational accounts	17,229	26,169	(8,940)
Total cash and cash equivalents	$ 63,362	$ 88,911	$ (25,549)

- The Interest bearing deposits with financial institutions accounted for $14.6 million and $14.5 million, as of September 30, 2013 and 2012, respectively. The increase is the result of interest earned on the System's certificates of deposits.

- The decrease in money market accounts of approximately $16.6 million reflects the System's needs to continuously withdraw funds for operating expenses, and the increasing pension expenditures.

- Investments decreased approximately $43.9 million, which represented a 4.54% decrease over September 30, 2012. Both the domestic and international common stock portfolios had positive performance for the fiscal year. For the year ended September 30, 2013 the total return on the investment portfolio amounted to 11.2%. The following is also noted:

  - The invested cash collateral received under lending transactions, which is included in cash, cash equivalents and investments, decreased to approximately $52.4 million as of September 30, 2013 from approximately $128.5 million as of September 30, 2012. This decrease of $76.1 million was offset by a comparable decrease 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 $1.7 million to approximately $4.7 million as of September 30, 2013 from approximately $3.0 million as of September 30, 2012.

  - The investment loans decreased approximately $11 million due primarily to the transfer of ownership of Carambola NW-LLC d/b/a Renaissance St. Croix Carambola Beach Resort and Spa to the System.

- The members' loans increased $4.2 million to approximately $148 million as of September 30, 2013 from approximately $143.8 million as of September 30, 2012. The 3% increase was attributable primarily to the increase in personal loans granted during the year.

- The real estate increased approximately $1.2 million primarily due to the net effect of the ownership of Carambola NW-LLC d/b/a Renaissance St. Croix Carambola Beach Resort and $367 thousand complex write down as a result of the 2013 appraisal and depreciation expense for the year of approximately $598 thousand.

- Total other assets increased by approximately $383 thousand primarily due to the net effect of increase in interest payments on outstanding debt, and the receipt of outstanding payments due from Central Government and other government agencies.

At September 30, 2013, the System's total liabilities were $66 million compared with $145.3 million at September 30, 2012. The decrease is primarily due to:

- Payable for collateral received under securities lending transactions decreased by approximately $76.1 million when compared to prior year. This decrease 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.

Comparison of 2013 and 2012 Additions, Deductions, and Changes in Net Position

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

Additions, Deductions and Changes in Net Position	**2013**	**2012**	**Increase (Decrease)**	**Percentage**
Net appreciation in fair value of investments	$ 71,664	$ 142,357	$ (70,693)	(49.66%)
Interest, dividends, and other	31,679	33,028	(1,349)	(4.08%)
Rental income, net	2,932	2,761	171	6.19%
Less investment management fees and custodian fees, borrowers' rebates and other agent fees on securities lending transactions, and other expenses	(4,651)	(5,038)	(387)	(7.68%)
Total investment income	101,624	173,108	(71,484)	(41.29%)
Total contribution income	98,522	104,404	(5,882)	(5.63%)
Other income	1,272	1,421	(149)	(10.49%)
Total additions	201,418	278,933	(77,515)	(27.79%)
Benefits paid directly to members	234,362	225,770	8,592	3.81%
Refunds of members' contributions	6,203	7,327	(1,124)	(15.34%)
Administrative and operational expenses	19,582	18,481	1,101	5.96%
Total deductions	260,147	251,578	8,569	3.41%
Net (decrease) increase	$ (58,729)	$ 27,355	$ (86,084)	(314.69%)

For the year ended September 30, 2013, operations resulted in a net decrease in the plan net assets of approximately $48.8 million when compared to the net increase of $27.3 million for the year ended September 30, 2012. This net decrease of $76.1 million in the plan net assets resulted from the net effect of the following:

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

  Total net appreciation in fair value of investments for the year ended September 30, 2013 was approximately $71.6 million, reflecting a 49.6% decrease when compared to the $142 million net appreciation reported for the year ended September 30, 2012. This change was largely driven by a 11.2 percent return for the fiscal year 2013 versus a 17.5 percent return for the prior fiscal year and a decline in market value of Carambola NW-LLC.

  Domestic and International common stock appreciation in fair value for the year ended September 30, 2013 was approximately $65 million and $8.2 million, respectively. This was largely driven by domestic equity's return of 22.6 percent and international equity's return of 26.9

percent for the fiscal year 2013. This is in contrast to returns of 28 percent and 15 percent for domestic and international, respectively for the prior fiscal year 2012. Several of the Fund's separately managed accounts were transitioned to index funds near the end of fiscal year 2013.

Mutual funds consist of a S&P 500 index, as well as international equity and global bond funds. Commingled/mutual funds appreciation in fair value for the year ended September 30, 2013 was approximately $23.4 million. This was largely driven by the S&P 500 index's approximate return of 19.6 percent, the international equity funds approximate return of 8 percent and the global fund's approximate negative return of 0.8 percent for the fiscal year 2013. This is in contrast to returns of 30.1 percent and 11.2 percent for the S&P 500 and global bonds, respectively. The allocation to the international equity fund was initiated in fiscal year 2013.

Fixed income consists of U.S. Government, Agency, Corporate, Mortgage-backed, Asset-backed, and Foreign bonds. Fixed income net depreciation in fair value for the year ended September 30, 2013 was approximately $11.8 million. The composition of the net depreciation is as follows:

- U.S. Government and Agencies – ($4.2 million)
- Corporate – ($3.2 million)
- Mortgage and Asset-backed – ($4 million)
- Foreign Bonds and Government Obligations – ($313 thousand)

This was largely driven by an approximate negative return of 1.5 percent for the fiscal year 2013. This is in contrast to an approximate positive return of 6.7 percent in the prior fiscal year 2012. One of the System's separately managed bond accounts was transitioned to new Treasury Inflation Protected Security and Aggregate Bond index funds near the end of the fiscal year 2013.

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, 2013, the asset allocation was slightly out of line with the System's target. GERS management along with its Board of Trustees, under advisement from its financial advisors, will continue to review all investment programs and monitor the investment managers that are responsible for investing the assets.

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

The net appreciation in the fair value of real estate was largely due to the ownership of Renaissance St. Croix Carambola Beach Resort and Spa. The value of the GERS Complex was adjusted by $367 thousand in fiscal year 2013 to reflect its fair market value consistent with the implementation of GASB No. 25.

- **Interest, Dividends, and Other**

Total interest, dividends, and other decreased to approximately $31.7 million for the year ended September 30, 2013 compared to approximately $33 million for the year ended September 30, 2012. The decrease of $1.35 million was due primarily to the net combination of the following factors: interest income increased approximately $1.1 million and investment and dividend decreased approximately $2.4 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
Year Ended September 30, 2014

- **Investment Management Fees and Custodian Fees, Borrower' Rebates and Other Agent Fees on Securities Lending Transactions, and Other Expenses**

  The investment and other fees decreased to approximately $4.65 million for the year ended September 30, 2013 from approximately $5.04 million for the year ended September 30, 2012.

- **Contribution Income**

  Total contribution income decreased by approximately 5.63% or $5.9 million to $98.5 million in fiscal year 2013 from $104.4 million in fiscal year 2012. This was due primarily to residual effect of Act 7261 (VIESA-Virgin Islands Economic Stability Act of 2011) which resulted in employees being laid off, terminated, entering into early retirement to avoid the additional contribution imposed if not retired after a certain number of years of service; and or being refunded their member contributions. This is reflected in the decrease of 15.34% or $1.1 million in contributions refunds over Fiscal 2012 contributions refunds of $7.3 million; and an increase in benefits paid to members.

- **Other Income**

  Other income decreased to $1.3 million for fiscal year ended September 30, 2013 from approximately $1.4 million dollars in fiscal year ended September 30, 2012.

- **Benefits Paid Directly to Members**

  Benefits paid directly to members increased to approximately $234.4 million for the year ended September 30, 2013 from approximately $225.8 million for the year ended September 30, 2012. This increase of 3.81% or $8.6 million was due primarily to the net effect of annuity paid which includes retro payment from prior period; regular monthly annuity; duty connected disability; and death benefits.

- **Administrative and Operational Expenses**

  Administrative and operational expenses increased by approximately $1.1 million to approximately $19.6 million for the year ended September 30, 2013 from $18.5 million for the year ended September 30, 2012.

CONTACTING THE SYSTEM'S MANAGEMENT

This financial report is designed to provide the board of trustees, the membership and investors, and creditors with a general overview of the finances and to demonstrate the System's accountability for the money it receives. Questions or concerns regarding any information in this report or requests for additional information should be addressed to the Government Employees' Retirement System, 3438 Kronprindsens Gade, Saint Thomas, Virgin Islands 00802.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2014
(With Comparative Totals for 2013)

	Year Ended September 30, 2014	Restated 2013
Assets		
Cash and cash equivalents	$ 51,438,732	$ 63,361,730
Cash collateral received under securities lending transactions (Note 7)	33,484,615	52,361,161
Investments, at fair value (Note 6):		
Certificates of Deposits	14,740,081	14,634,926
U.S. Government and agency obligations	60,755,148	64,135,433
Corporate obligations	31,144,415	33,186,024
Foreign bonds and government obligations	5,483,584	7,417,690
Common stock – U.S.	151,663,524	154,875,735
Mortgage and asset-backed securities	30,970,242	41,622,704
Mutual funds	487,821,519	525,599,647
Unsettled securities sold	244,302	4,697,021
Investment loans	25,551,904	21,924,794
Real estate investment trust	3,409,558	4,252,278
Limited partnerships	53,907,600	57,693,182
Total cash, cash equivalents and investments	950,615,224	1,045,762,325
Foreign currency exchange contracts (Note 6)	239,214	-
Member loans:		
Mortgage	7,977,360	7,333,154
Personal	150,280,266	141,687,001
Auto	60,752	70,926
	158,318,378	149,091,081
Less allowance for losses	(1,206,401)	(1,021,776)
	157,111,977	148,069,305
Real estate:		
Havensight Mall	41,000,000	66,600,000
Carambola NW- LLC	2,100,000	2,100,000
System Complex	28,118,790	28,140,444
	71,218,790	96,840,444
Reserved assets	5,793	33,114
Due from other agencies of the Government of the U.S. Virgin Islands	10,618,291	7,842,309
Accrued interest receivable	2,421,782	5,405,371
Other	3,040,958	4,655,116
Total assets	1,195,272,029	1,308,607,984
Liabilities		
Foreign currency exchange contract (Note 6)	-	294,996
Retirement benefits in process of payment	4,021,823	4,501,849
Payable for collateral received under securities lending transactions (Note 7)	33,484,615	52,361,161
Unsettled securities purchased	3,996,207	566,263
Other liabilities	10,878,009	8,274,602
Total liabilities	52,380,654	65,998,871
Net Position restricted for Pensions	$ 1,142,891,375	$ 1,242,609,113

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

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

SEPTEMBER 30, 2014
(With Comparative Totals for 2013)

	Year Ended September 30, 2014	Restated 2013
Additions:		
Investment income:		
Net appreciation in fair value of investments	$ 37,045,846	$ 71,663,828
Interest and dividends	17,399,314	30,609,320
Other investment income	9,594,220	1,070,055
Rental income - net of related expenses	(753,737)	2,931,505
	63,285,643	106,274,708
Less:		
Investment management fees and custodian fees	2,883,726	4,104,103
Borrowers' rebates and other agent fees on securities lending transactions	39,847	216,296
Other expenses	35,149	330,390
	60,326,921	101,623,919
Contributions:		
Employer	68,298,617	64,431,322
Employees	34,020,107	34,090,376
	102,318,724	98,521,698
Other income	3,573,611	1,272,191
Total additions	166,219,256	201,417,808
Deductions:		
Benefits paid directly to members	239,713,063	234,361,509
Refunds of members' contributions	7,356,440	6,203,325
Administrative and operational expenses	18,867,491	19,581,770
Total deductions	265,936,994	260,146,604
Net (decrease) in net position	(99,717,738)	(58,728,796)
Net position restricted for pensions:		
Net Position Beginning of year	1,242,609,113	1,301,337,909
Net Position End of year	$1,142,891,375	$1,242,609,113

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

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

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 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, 2014 and 2013:

	2014	2013
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	8,465	8,024
Current employees	9,227	9,393
	17,692	17,417

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.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

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 3 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 17.5% of the employee's annual salary and required employee contributions are 8% and 8.5% of annual salary for Tier I and Tier II regular employees respectively; 9% and 11% for Tier I and Tier II senators respectively, 11% for judges, and 10% and 10.625% 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.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

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 $26,941,489 and $26,935,247 as of September 30, 2014 and 2013, respectively, of which a total of $26,941,489 and $26,935,247, respectively, had 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.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

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 has decreased to $41,000,000 for September 30, 2014 from $66,600,000 at September 30, 2013.

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 May 1, 2013. The value has remained unchanged at September 30, 2014.

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.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

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 or 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, 2013, from which the summarized information was derived.

2. Cash and Cash Equivalents

The cash and cash equivalents include the following:

	2014	2013
Cash in money market accounts	$ 26,744,828	$ 46,133,290
Cash in operational accounts	24,693,904	17,228,440
Total cash and cash equivalents	$ 51,438,732	$ 63,361,730

3. Accounting Changes

GASB issued Statement *No. 67, Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25,* to improve financial reporting by state and local governmental pension plans. The statement was implemented in fiscal year 2014.

4. Restatement

Subsequent to the year ended September 30, 2013 the System determined that the fiscal year 2013 appraisal for Carambola N.W. LLC was overstated by 9,900,000. The updated appraisal resulted in a 9,900,000 downward adjustment in Carambola NW LLC. The resulting downward adjustment has been reported as a correction of an error by restating September 30, 2013 financial statements.

The following are the previously stated and corrected balances as of September 30, 2013:

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

4. Restatement *(continued)*

Statement of Fiduciary Net Position as of September 30, 2013

	Previously Reported	Increase/ (Decrease)	Restated
Total Assets	$ 1,318,507,984	$ (9,900,000)	$ 1,308,607,984
Total Liabilities	65,998,871	-	65,998,871
	$ 1,252,509,113	$ (9,900,000)	$ 1,242,609,113

Statement of Changes in Fiduciary Net Position as of September 30, 2013

	Previously Reported	Increase/ (Decrease)	Restated
Additions	$ 211,317,808	$ (9,900,000)	$ 201,417,808
Deductions	260,146,604	-	260,146,604
Net Increase	$ (48,828,796)	$ (9,900,000)	$ (58,728,796)

5. Net Pension Liability

The components of the net pension liability (NPL) September 30, 2014, were as follows:

Total pension liability	$4,228,909,387
Plan fiduciary net position	1,152,791,375
Employers' net pension liability	3,076,118,012
Plan fiduciary net position as a percentage of the total pension liability	27.26%

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 - See Exhibit 1. Additional methods and assumptions used in the actuarial valuation for funding purposes are listed in the actuarial section of the report.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

5. Net Pension Liability *(continued)*

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%
Alternative	5%	4.29%
Total	100%	

Discount rate: The discount rate used to measure the total pension liability was 4.42% as of September 30, 2014 and 4.87% as of September 30, 2013. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the 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:

	1% Decrease (3.42%)	Current Discount (4.42%)	1% Increase (5.42%)
Net pension liability	$3,571,785,506	$3,074,596,415	$2,654,216,014

6. 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.

6. Investments *(continued)*

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;
- 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 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;

6. Investments *(continued)*

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 and the investment in any such stocks or a sale thereof should be approved by at least two-thirds of the membership of the board of trustees;

- 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 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, 2014, the outstanding balance is $6,937,017.

6. Investments *(continued)*

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 GERS 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, 2014, the outstanding principal balance on the loan is $6,000,000.

(c) Limited Partnership

The total value of the limited partnership investments at September 30, 2014 and September 30, 2013 is as follows:

	2014	2013
Attilanus	$ 33,004,984	$ 41,256,230
Fisher	783,315	596,131
Mesirow	20,119,301	15,840,821
Total Limited Partnership	$ 53,907,600	$ 57,693,182

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 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.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

6. Investments *(continued)*

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. For the year ended September 30, 2014, the fair value of the limited partnership investment of $33,004,984 is based on management's decision to reduce the carrying value as of September 30, 2014. For the year ended September 30, 2013 the fair value of the limited partnership investment of $41,256,230 was based on the valuation as reported by the fund manager.

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, 2014 and September 30, 2013 was $10,308,043 and $4,163,406, respectively.

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

The fair value of the System's investments at September 30, 2014 and 2013 amounted to $865,447,575 and $925,342,413, respectively. The investments generated interest and dividend income of $5,796,431 and $17,364,601 for the years ended September 2014 and 2013, respectively.

In addition, the System's investments including gains and losses on investments bought and sold, as well as held during the year, appreciated in value by $62,645,846 in fiscal year 2014 when compared to $81,930,544 appreciation in fiscal year 2013, as follows:

	2014	**2013**
U.S. government and agency obligations	$ (163,995)	$ (4,228,823)
Corporate obligations	660,204	(3,211,360)
Foreign bonds and government obligations	(107,086)	(313,433)
Common and preferred stock - U.S.	21,562,772	65,092,696
Common and preferred stock - foreign	(99,380)	8,270,019
Mortgage and asset-backed securities	344,823	(4,038,804)
Commingled and Mutual funds	50,186,672	23,357,298
Real Estate Investment Trust	270,894	134,575
Investment Loans	(6,999,400)	(2,750,000)
Limited partnership	(3,009,658)	(381,624)
Totals	$ 62,645,846	$ 81,930,544

6. Investments *(continued)*

(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, 2014 and 2013, all cash and cash equivalents were covered by federal deposit insurance, corporate surety bonds, or by collateral held by the System.

(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, 2014 include the following:

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

6. Investments *(continued)*

Standard & Poor's Credit Ratings:

	Fair Value	Credit Ratings
Corporate obligations	$ 701,211	AAA
Corporate obligations	375,532	AA+
Corporate obligations	518,438	AA
Corporate obligations	500,390	AA-
Corporate obligations	1,002,412	A+
Corporate obligations	4,132,417	A
Corporate obligations	8,569,949	A-
Corporate obligations	6,664,417	BBB+
Corporate obligations	5,686,518	BBB
Corporate obligations	2,308,732	BBB-
Corporate obligations	684,399	Not Rated
Foreign bonds and government obligations	533,127	AAA
Foreign bonds and government obligations	670,373	A-
Foreign bonds and government obligations	1,844,306	BBB
Foreign bonds and government obligations	2,435,778	Not Rated
Investment loans	25,551,904	Not Rated
Mortgage and asset-backed securities	4,438,066	AAA
Mortgage and asset-backed securities	19,846,302	AA+
Mortgage and asset-backed securities	1,390,916	AA
Mortgage and asset-backed securities	1,254,126	AA-
Mortgage and asset-backed securities	864,154	A+
Mortgage and asset-backed securities	562,221	A-
Mortgage and asset-backed securities	7,233	BBB-
Mortgage and asset-backed securities	91,478	BB+
Mortgage and asset-backed securities	119,785	B-
Mortgage and asset-backed securities	733,300	CCC
Mortgage and asset-backed securities	48,215	D
Mortgage and asset-backed securities	1,614,446	NA
Commingled funds	487,821,519	Not Rated
Total	$ 580,971,664	

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

6. Investments *(continued)*

Moody's Investor Services Credit Ratings:

	Fair Value	Credit Ratings
Corporate obligations	$ 701,211	Aaa
Corporate obligations	375,532	Aa1
Corporate obligations	1,579,969	Aa3
Corporate obligations	3,046,639	A2
Corporate obligations	4,304,167	A3
Corporate obligations	7,219,798	Baa1
Corporate obligations	9,492,245	Baa2
Corporate obligations	3,934,995	Baa3
Corporate obligations	489,859	Not Rated
Foreign bonds and government obligations	2,968,905	Aaa
Foreign bonds and government obligations	670,373	Baa1
Foreign bonds and government obligations	1,844,306	Baa2
Investment loans	25,551,904	Not Rated
Mortgage and asset-backed securities	24,418,099	Aaa
Mortgage and asset-backed securities	476,216	Aa1
Mortgage and asset-backed securities	390,667	Aa2
Mortgage and asset-backed securities	348,456	Aa3
Mortgage and asset-backed securities	141,613	A1
Mortgage and asset-backed securities	120,473	A2
Mortgage and asset-backed securities	-	A3
Mortgage and asset-backed securities	182,404	Baa1
Mortgage and asset-backed securities	187,430	Baa2
Mortgage and asset-backed securities	83,207	Baa3
Mortgage and asset-backed securities	34,244	Ba1
Mortgage and asset-backed securities	127,020	B3
Mortgage and asset-backed securities	321,451	Caa1
Mortgage and asset-backed securities	207,186	Caa2
Mortgage and asset-backed securities	204,662	Caa3
Mortgage and asset-backed securities	48,216	D
Mortgage and asset-backed securities	2,785,091	Not Available
Mortgage and asset-backed securities	893,807	Not Rated
Commingled funds	487,821,519	Not Available
Total	$ 580,971,664	

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

6. Investments *(continued)*

Cash and cash equivalents and other investments at September 30, 2014 include the following:

	Fair Value	Credit Ratings: Standard & Poor	Credit Ratings: Moody's
Cash and cash equivalents	$ 51,438,732	Not Rated	Not Rated
Common stock - U.S.	151,663,524	Not Rated	Not Rated
Real estate investment trust	3,409,558	Not Rated	Not Rated
U.S. government & agency obligations	3,763,624	AA+	Aaa
U.S. government & agency obligations	706,468	AA	Aa2
U.S. government & agency obligations	417,260	AA-	Ba1
U.S. Treasury Bonds	2,581,372	AA+	Aaa
U.S. Treasury Notes	48,860,435	AA+	Aaa
Municipal Bonds	591,581	AAA	Aaa
Municipal Bonds	64,294	AA+	Aaa
Municipal Bonds	238,458	AA+	Aa1
Municipal Bonds	535,960	AA	Aa2
Municipal Bonds	580,591	AA-	Aa2
Municipal Bonds	303,342	A+	Aa3
Municipal Bonds	378,544	A	Aa3
Municipal Bonds	339,425	A-	A2
Municipal Bonds	161,626	BB+	B1
Municipal Bonds	220,254	B-	B2
Municipal Bonds	1,011,914	B-	B3
Limited partnership	53,907,600	Not Rated	Not Rated
Total cash, cash equivalents and other investments	$ 321,174,562		

The total System's cash, cash equivalents and investment securities at September 30, 2014 consists of:

Fixed income investments	$ 580,971,664
Cash, cash equivalents, and other Investments	321,174,562
	$ 902,146,226
Cash and cash equivalents	$ 51,438,732
Investments, at fair value	850,707,494
	$ 902,146,226

6. 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, 2014, the System had the following investments and maturities:

		Maturity *(in years)*				
Investment Type	**Fair Value**	**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	$ 4,887,352	$ 706,468	$ 1,700,609	$ 2,480,275	$ -	$ -
U.S. Treasury notes	48,860,435	-	47,084,053	1,776,382	-	-
U.S. Treasury bonds	2,581,372	-	-	-	2,581,372	-
Municipals bonds	4,425,989	-	883,933	238,458	3,303,598	-
Mutual funds	487,821,519	-	-	-	-	487,821,519
Corporate obligations	31,144,415	403,012	14,380,872	7,618,752	8,741,779	-
Foreign bonds & government obligation	5,483,584	-	4,214,201	238,757	1,030,626	-
Mortgage and asset-backed securities	30,970,242	-	3,007,972	1,850,387	26,111,883	-
Investment Loans	25,551,904	-	17,967,106	7,584,798	-	-
Totals	$641,726,812	$ 1,109,480	$89,238,746	$21,787,809	$41,769,258	$487,821,519

(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, 2014 and 2013. The fair value of the underlying securities on loan secured by noncash collateral amounted to $1,370,197 and $8,992,048 at September 30, 2014 and 2013, respectively.

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.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

6. Investments *(continued)*

(l) Foreign Currency Risk - Investments

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, 2014:

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

(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. The fair value of forward currency exchange contracts outstanding at September 30, 2014 and 2013 is as follows:

	2014	2013
Forward currency purchases	$ (5,538,124)	$ (7,590,287)
Forward currency sales	5,777,338	7,295,291
	$ 239,214	$ (294,996)

6. Investments *(continued)*

During the year ended September 30, 2014, the System recognized a foreign exchange gain of $235,352. During the year ended September 30, 2013, the System recognized a foreign exchange gain of $50,157. Such gain (loss) is reported in interest, dividends and other investment income in the accompanying financial statements.

(n) Member Loans

The System's investments in member loans, net of allowances for loan losses, at September 30, 2014 and 2013 were $157,111,977 and $148,069,305, respectively. Such investments in member loans generated interest income of $11,616,170 and $11,924,774 for the years ended September 30, 2014 and 2013, respectively. The average interest rate was 8% for the years ended September 2014 and 2013 respectively.

(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 remains at $12,000,000 for the year ended September 30, 2014. Rental Income net of related expenses generated a net loss of $737,737 for the year ended September 30, 2014 and $2,931,505 for the year ended September 30, 2013.

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, 2014 and 2013 is as follows:

	2014	**2013**
Land	$ 11,322,161	$ 11,322,161
Building, improvements, and fixtures	20,994,791	20,389,741
	32,316,952	31,711,902
Less: accumulated depreciation and amortization	4,198,162	3,571,458
Totals	$ 28,118,790	$ 28,140,444

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

7. 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 2014 or 2013 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, 2014 and 2013, 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 years 2014 or 2013, 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, 2014 and 2013, such investment pool had a weighted average maturity of 42 days and 42 days, respectively, and an average expected maturity of 178 days and 123 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, 2014 and 2013, the fair value of securities on loan amounted to $34,582,300 and $60,483,136, respectively, 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 $35,559,397 including $33,484,615 of cash, and $61,848,809 including $52,361,161 of cash, as of September 30, 2014 and 2013, respectively. Investments made with cash collateral are reported as an asset of the System with a corresponding liability in the accompanying statements of net position.

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

7. Securities Lending Transactions *(continued)*

The following represents the balances relating to the securities lending transactions as of September 30, 2014 and September 30, 2013, respectively:

Securities Lent	Underlying Securities	Cash Collateral Investment Value	Securities Collateral Investment Value
Lent for Cash Collateral:			
U.S. government and agency obligations	$ 11,149,313	$ 11,386,882	$ -
Corporate bonds	4,387,051	4,485,388	-
Common and preferred stocks	17,011,924	17,612,345	-
Lent for Securities Collateral:			
U.S. government and agency obligations	1,342,869	-	1,370,197
Corporate bonds	378,674	-	384,514
Common and preferred stocks	312,469	-	320,070
Totals	$ 34,582,300	$ 33,484,615	$ 2,074,781

Securities Lent	Underlying Securities	Cash Collateral Investment Value	Securities Collateral Investment Value
Lent for Cash Collateral:			
U.S. government and agency obligations	$ 16,553,572	$ 16,904,780	$ -
Corporate bonds	5,994,017	6,123,875	-
Common and preferred stocks	28,642,146	29,332,506	-
Lent for Securities Collateral:			
U.S. government and agency obligations	9,140,290	-	9,331,291
Corporate bonds	-	-	-
Common and preferred stocks	153,111	-	156,357
Totals	$ 60,483,136	$ 52,361,161	$ 9,487,648

8. 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:

	2014	2013
Cash	$ 1,738	$ 29,102
Certificates of deposit	4,055	4,012
Totals	$ 5,793	$ 33,114

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

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

At September 30, 2014 and 2013, the amount recorded as due from Agencies of the Government of the Virgin Islands was $10,618,291 and 7,842,309, respectively. Included in the amount due from Agencies of the Government of the 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.

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. As of this date, the System has not received any funds under this Act.

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 $2,883,726 and $4,104,103 for the years ended September 30, 2014 and 2013, respectively.

14. Subsequent Events

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%. The System has evaluated subsequent events through June 26, 2015, which is the date the financial statements were available to be issued. Management is not aware of any facts or circumstances that require disclosure in the financial statements for the year ended September 30, 2014.

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

EXIBIT 1
Schedule of Changes in Net Pension Liability

September 30:	**2014**
Total pension liability	
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)
Net change in total pension liability	246,342,607
Total pension liability – beginning	3,982,566,780
Total pension liability – ending (a)	$4,228,909,387
Plan fiduciary net position	
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
Net change in plan fiduciary net position	(99,717,738)
Plan fiduciary net position – beginning	1,252,509,113
Plan fiduciary net position – ending (b)	1,152,791,375
Net pension liability – ending (a) – (b)	$3,076,118,012
Plan fiduciary net position as a percentage of the total pension liability	27.26%
Covered employee payroll	$355,603,633*
Net pension liability as percentage of covered employee payroll	865.04%

**Historical information was not available for the preceding years.*

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

EXIBIT 2
Notes to Schedule of Changes in Net Pension Liability

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.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
September 30, 2014

EXHIBIT 3
Schedule of Employer Contribution – Last Ten Fiscal Years

Year Ended September 30:	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Percentage Contributed
2005*	$120,184,848	$51,542,030	$(68,642,818)	$372,996,234	13.82%
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%

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

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
September 30, 2014

EXHIBIT 4
Notes to Schedule of Employer Contributions

Valuation date	Actuarially determined contributions are calculated as of October 1
Methods and used assumption to determine contribution rates:	
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level dollar, closed group
Amortization period	20 years open amortization
Asset valuation method	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.
Actuarial assumptions:	The actuarial assumptions are the same as the assumptions used in the October 1, 2014 funding actuarial valuation.