

**GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
OF THE VIRGIN ISLANDS**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS AND ALLOCATION
PERCENTAGES AND SCHEDULE OF PENSION AMOUNTS BY EMPLOYER**

SEPTEMBER 30, 2022

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SEPTEMBER 30, 2022

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON THE AUDIT OF THE SCHEDULES**

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

Opinion

We have audited the accompanying schedule of employer contributions and allocation percentages of the Government Employees' Retirement System of the Virgin Islands (the System) as of September 30, 2022. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, and total deferred inflows of resources (specified column totals) included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended September 30, 2022 (collectively referred to as "the Schedules"), and the related notes to the Schedules.

In our opinion, the Schedules referred to above present fairly, in all material respects, the employer allocations as of September 30, 2022, and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total change in pension liability factored for contributions for the total of all participating entities for the System as of and for the year ended September 30, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Schedules* section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Schedules

The System's management is responsible for the preparation and fair presentation of the Schedules in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Schedules, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for one year after the date that the Schedules are available for issuance.

Auditor's Responsibilities for the Audit of the Schedules

Our objectives are to obtain reasonable assurance about whether the Schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Schedule.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Schedules.
- Obtain an understanding of internal controls relevant to the audit 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 System's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Schedules.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Certified Public
Accountants &
SBC Business Advisors

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, the financial statements of the System as of and for the year ended September 30, 2022, and our report thereon, dated March 16, 2023, expressed an unmodified opinion on those financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2024, on our consideration of the System's internal controls 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 solely to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the System's internal controls 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 controls over financial reporting and compliance.

Restriction on Use

Our report is intended solely for the information and use of the System management, members of the Board of Investment Trustees, the System plan employers and their auditors, and is not intended to be and should not be used by anyone other than these specified parties.

Owings Mills, Maryland
April 22, 2024

SBC + Company, LLC

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

Schedule of Employer Contributions and Allocation Percentages As of September 30, 2022

Employer	Five Year Employer Average Contributions ¹	Employer Allocation Percentage of Total Contributions ²
Finance (Central Government)	\$ 78,143,119	75.6669%
Water and Power Authority	5,091,684	4.9303%
VI Port Authority	3,223,215	3.1211%
Roy Lester Schneider Medical Center	4,771,244	4.6201%
Juan F Luis Hospital	5,014,617	4.8557%
University of the Virgin Islands	1,380,426	1.3367%
VI Housing Authority	1,588,263	1.5379%
Waste Management Authority	1,152,766	1.1162%
Lottery	498,113	0.4823%
Economic Development Authority	493,562	0.4779%
Housing Finance Authority	1,042,988	1.0099%
Public Finance Authority	271,820	0.2632%
Industrial Park Development Corp.	32,734	0.0317%
Total of Employers Calculating Allocation	102,704,551	99.4500%
Frederiksted Health Center Inc. ³	N/A	0.3300%
East End Medical Center ³	N/A	0.2200%
Total	\$ 102,704,551	100.0000%

1. The employer contributions represent average employer contributions paid during the plan years September 30, 2018 through September 30, 2022.
2. Employer allocation percentages were calculated to thirteen decimal points and reported herein at four decimal points.
3. Since the employees of Frederiksted Health Center, Inc. and East End Medical Center hired after April 7, 2004 are not eligible to participate in GERS, their allocation percentages were fixed at 0.33% and 0.22%, respectively. These percentages are based on the percentage of employer contributions paid during the year ended September 30, 2010 which is the year in which the two employers' paid employer contributions broken down separately.

The accompanying notes are an integral part of this schedule.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

**Schedule of Pension Amounts by Employer
As of and for the Year Ended September 30, 2022**

As of September 30, 2022										For the Year Ended September 30, 2022
Department/Agency	Deferred Outflows of Resources					Deferred Inflows of Resources				Pension Expense
	Allocation Percentages	Net Pension Liability	Difference Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes in Assumptions	Total Deferred Outflows of Resources	Difference Between Expected and Actual Experience	Changes in Assumptions	Total Deferred Inflows of Resources	Proportionate Share of Allocable Pension Plan Expense
Finance (Central Government)	75.6669%	\$ 3,095,306,242	\$ 10,923,145	\$29,873,595	\$ 415,460,353	\$ 456,257,093	\$ 236,369,726	\$ 981,238,446	\$ 1,217,608,172	\$ 25,819,052
Water and Power Authority	4.9303%	201,689,926	711,751	1,946,561	27,071,366	29,729,678	15,401,834	63,937,424	79,339,258	1,682,368
VI Port Authority	3.1211%	127,641,495	450,439	1,231,901	17,132,386	18,814,726	9,747,205	40,463,441	50,210,646	1,064,703
Roy Lester Schneider Medical Center	4.6201%	189,007,598	666,996	1,824,161	25,369,110	27,860,267	14,433,361	59,917,018	74,350,379	1,576,580
Juan F Luis Hospital	4.8557%	198,826,174	701,645	1,918,922	26,686,986	29,307,553	15,183,146	63,029,591	78,212,737	1,658,480
University of the Virgin Islands	1.3367%	54,820,385	193,458	529,086	7,358,140	8,080,684	4,186,300	17,378,529	21,564,829	457,276
VI Housing Authority	1.5379%	63,002,533	222,332	608,054	8,456,370	9,286,756	4,811,120	19,972,339	24,783,459	525,527
Waste Management Authority	1.1162%	45,820,024	161,696	442,221	6,150,087	6,754,004	3,498,997	14,525,338	18,024,335	382,201
Lottery	0.4823%	19,637,153	69,298	189,523	2,635,752	2,894,573	1,499,570	6,225,145	7,724,715	163,800
Economic Development Authority	0.4779%	19,637,153	69,298	189,523	2,635,752	2,894,573	1,499,570	6,225,145	7,724,715	163,800
Housing Finance Authority	1.0099%	41,319,843	145,815	398,788	5,546,061	6,090,664	3,155,345	13,098,742	16,254,087	344,664
Public Finance Authority	0.2632%	10,636,791	37,537	102,658	1,427,699	1,567,894	812,267	3,371,953	4,184,220	88,725
Industrial Park Development Corp.	0.0317%	1,227,322	4,331	11,845	164,734	180,910	93,723	389,072	482,795	10,238
Frederiksted Health Center Inc.	0.3300%	13,500,543	47,643	130,297	1,812,079	1,990,019	1,030,954	4,279,787	5,310,741	112,613
East End Medical Center	0.2200%	9,000,362	31,765	86,865	1,208,053	1,326,683	687,310	2,853,188	3,540,498	75,076
Total	100%	\$ 4,091,073,544	\$ 14,437,149	\$ 39,484,000	\$ 549,114,928	\$ 603,036,077	\$ 312,410,428	\$ 1,296,905,158	\$ 1,609,315,586	\$ 34,125,103

The accompanying notes are an integral part of this schedule.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

Notes to Schedule of Employer Contributions and Allocation Percentages and Schedule of Pension Amounts by Employer For the Year Ended September 30, 2022

1. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

The Government Employees' Retirement System of the Virgin Islands (the System or GERS) is a multiple employer defined benefit pension plan. The System was established as of October 1, 1959 by the Government of the 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 Virgin Islands for financial reporting purposes and is included in the Government's financial reports as a pension trust fund.

The following is a brief description of the Plan in effect as of September 30, 2022. For a more complete description, please refer to the actual text of the retirement law in the Code, Title 3, Chapter 27 and subsequent revisions to the code.

Separately issued financial statements for the Plan are available from GERS Office located at:

Government Employees' Retirement System of the Virgin Islands
3438 Kronprindsens Gade
Saint Thomas, U.S. Virgin Islands 00802

Eligibility and Membership: The Plan covers all employees of the Government of the Virgin Islands except casual, provisional, or any part-time employee who does not regularly work at least 20 hours per week. The Plan also covers employees whose services are compensated on a contractual fee or per diem basis who work exclusively for the Government at least 40 hours per week. The Plan provides retirement, death, and disability benefits to plan members. Benefits may be extended to beneficiaries of plan members.

There are two tiers within the Plan:

- 1) **Tier I** - Employees hired prior to September 30, 2005
- 2) **Tier II** - Employees hired on or after October 1, 2005

Tier I employees who reenter government service on or after October 1, 2016 may elect not to be a member of the Plan if the employee is 60 years of age or older and is not receiving a retirement annuity from the Plan. Tier II employees who reenter government service may elect not to be a member of the Plan if the employee is 60 years of age or older and is not receiving a retirement annuity from the Plan.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

Notes to Schedule of Employer Contributions and Allocation Percentages and Schedule of Pension Amounts by Employer For the Year Ended September 30, 2022

1. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (continued)

Eligibility (continued)

Plan Membership as of September 30, 2022, consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	8,899
Current employees	<u>8,712</u>
	<u><u>17,611</u></u>

Vesting: The System provides for retirement, death, and disability benefits to plan members. Benefits may be extended to beneficiaries of plan members. Regular Tier I 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. Regular Tier II employees who have attained age 65 with at least ten years of 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. Tier I 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. Tier II regular and safety employees who have attained age 60 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 semi-monthly annuity benefit payments are 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 1.5 percent per year thereafter. 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.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

Notes to Schedule of Employer Contributions and Allocation Percentages and Schedule of Pension Amounts by Employer For the Year Ended September 30, 2022

1. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (continued)

Contributions: Contributions to the System are made by the employer (Government of the U.S. Virgin Islands and its Independent Instrumentalities) and employees. From time to time, The Board may actuarially determine the rate of contribution for Tier I members and employers of the System.

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 October 1, 2021 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 23.5% (effective January 1, 2020) of the employee's annual salary and required employee contributions are 11% and 11.5% of annual salary for Tier I and Tier II regular employees respectively, 12% and 14% for Tier I and Tier II senators respectively, 15% for both Tier I and Tier II judges, and 13% and 13.625% 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 in the semimonthly annuity received by member.

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.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

Notes to Schedule of Employer Contributions and Allocation Percentages and Schedule of Pension Amounts by Employer For the Year Ended September 30, 2022

1. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (continued)

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, the total due of \$26,944,627 was collected. This represents the total amount due under the Act.

The Actuary for 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.

Funding Note: On April 6, 2022, the Virgin Islands Public Finance Authority (the Authority) and The Bank of New York Mellon Trust Company N.A. as Trustee entered into an agreement called GERS Funding Note (the Note) to provide funding to the Government Employees' Retirement System (GERS) in the amount of \$3,805,294,438 over a period of 30 years beginning October 1, 2022, plus a special payment of \$89,198,738 which was received by the GERS on April 7, 2022. The purpose of the funding is to provide additional funds to GERS to reduce the unfunded net pension liability.

The Note is authorized pursuant to the Virgin Islands Revised Organic Act of 1954, as amended, the laws of the Virgin Islands, and other applicable laws. The Note is secured under the indenture by an assignment and pledge to the Trustee of the Authority's rights in and to the Trust Estate. The Note does not constitute a general obligation of the Authority, or of the Government of the Virgin Islands or the United States of America and cannot be called for redemption by the Authority. GERS is the registered owner of the Note and has only the rights to enforce the provisions of the Indenture or to institute action to enforce the covenants therein or to take any action with respect to any event or default under the indenture or to institute, appear in or defend any suit or other proceedings with respect thereto as provided in the Indenture. The Trustee shall treat GERS, the registered owner, as the person exclusively entitled to payment of principal and interest on this Note and entitled to the exercise of all other rights and powers of the Owner.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

Notes to Schedule of Employer Contributions and Allocation Percentages and Schedule of Pension Amounts by Employer For the Year Ended September 30, 2022

2. BASIS OF PRESENTATION

The Schedules of Employer Contributions and Allocation Percentages and Pension Amounts by Employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of the Government Employees' Retirement System of the Virgin Islands and its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of the Government Employees' Retirement System of the Virgin Islands or its participating employers. The accompanying Schedules have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The preparation of the Schedules in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The System's financial statements have been prepared under the accrual basis of accounting.

3. ALLOCATION PERCENTAGE METHODOLOGY AND CHANGES IN ASSUMPTIONS

Accounting principles generally accepted in the United States of America requires participating employers in the Plan to recognize their proportionate share of collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective pension expense excluding that attributable to employee-paid contributions. The assumptions used to calculate the employer allocations percentages presented in the Schedule of Employer Allocations and applied to amounts presented in the Schedule of Pension Amounts by Employer represent the average of each employer's contributions during the five year period October 1, 2018 through September 30, 2022 (excluding the additional special funding disclosed in Note 1). Since the employees of Frederiksted Health Center, Inc. and East End Medical Center hired after April 7, 2004, are not eligible to participate in GERS, their allocation percentages were fixed at 0.33% and 0.22%, respectively. These percentages are based on the percentage of employer contributions paid during the year ended September 30, 2010, which is the earliest year in which we have the two employers' paid employer contributions broken down separately. Employer contributions to the Plan are recognized when due pursuant to legal requirements. Employer contributions are determined by the Board of Trustees.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

Notes to Schedule of Employer Contributions and Allocation Percentages and Schedule of Pension Amounts by Employer For the Year Ended September 30, 2022

4. NET PENSION LIABILITY AND ACTUARIAL INFORMATION

The components of the Net Pension Liability of the System as of September 30, 2022, were as follows:

(1) Total Pension Liability	(2) Plan Fiduciary Net Position	(3) Employers' Net Pension Liability (1)-(2)
<u>\$ 4,491,404,535</u>	<u>\$ 400,330,991</u>	<u>\$ 4,091,073,544</u>

Actuarial Assumptions

The collective total pension liability for the September 30, 2022, measurement date was determined by an actuarial valuation as of September 30, 2022. These actuarial valuations used the following actuarial assumptions:

- Inflation 2.50%
- Salary increases 5.00%, including inflation
- Investment rate of return 4.77%, net of pension plan investment expense, including inflations

The total pension liability was measured based on assumptions pertaining to the interest rates, inflation rates, and employee demographic behavior in future years. The demographic assumptions are the same as the assumptions used in the September 30, 2022, funding valuation and are based on the results of an actuarial experience study for the period October 1, 2017 through September 30, 2022, with the net investment return assumption updated for the September 30, 2022 valuation. Current data is reviewed in conjunction with each annual valuation. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial schedules.

Mortality rates for healthy lives is based on Pub-2010 General Below-Median Amount-Weighted Employee and Healthy Annuitant Mortality Tables (95% load for Males) with generational projection using Scale MP-2021. Mortality for disabled lives is based on Pub-2010 Non-Safety Amount-Weighted Disabled Annuitant Mortality Table with generational projection using Scale MP-2021. Mortality rates for contingent survivors lives are based on Pub-2010 General Below-Median Amount-Weighted Contingent Survivor Annuitant Mortality Table with generational projection using Scale MP-2021.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

Notes to Schedule of Employer Contributions and Allocation Percentages and Schedule of Pension Amounts by Employer For the Year Ended September 30, 2022

4. NET PENSION LIABILITY AND ACTUARIAL INFORMATION (continued)

Actuarial Assumptions (continued)

The expected rate of return 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 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 real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2022, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	45%	6.66%
Developed Markets	14%	6.96%
Emerging Markets	6%	8.46%
Core Fixed Income	20%	1.36%
High Yield Fixed Income	10%	3.46%
Cash	5%	0.46%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 4.77% as of September 30, 2022. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate. Projected employer contributions and annual bond revenue that are intended to fund the service costs of future plan members and their beneficiaries are excluded, as are projected employee contributions from future plan members. 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 expected rate of return on pension plan investments of 6.00% was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by assets, the yield on a 20-year AA Municipal Bond Index was applied. As of September 30, 2022, that rate was 4.02%.

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

Notes to Schedule of Employer Contributions and Allocation Percentages and Schedule of Pension Amounts by Employer For the Year Ended September 30, 2022

4. NET PENSION LIABILITY AND ACTUARIAL INFORMATION (continued)

Discount Rate (continued)

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 4.77%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.77%) or 1-percentage-point higher (5.77%) than the current rate:

	1% Decrease (3.77%)	Current Discount (4.77%)	1% Increase (5.77%)
Net Pension Liability	<u>\$ 4,618,086,578</u>	<u>\$ 4,091,073,544</u>	<u>\$ 3,650,096,650</u>

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

Notes to Schedule of Employer Contributions and Allocation Percentages and Schedule of Pension Amounts by Employer For the Year Ended September 30, 2022

5. COLLECTIVE DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended September 30, 2022:

	Measurement Period Ending September 30,	Amortization Period	Beginning of Year Balance	Additions	Deductions	End of Year Balance
Deferred Outflow of Resources:						
Differences between Expected and	2016	7 years	\$ 10,955,705	\$ -	\$ 10,955,705	\$ -
Actual	2017	7 years	7,157,004	-	3,578,500	3,578,504
	2018	7 years	1,217,118	-	405,703	811,415
	2020	7 years	12,559,040	-	2,511,810	10,047,230
Subtotal			<u>31,888,867</u>	<u>-</u>	<u>17,451,718</u>	<u>14,437,149</u>
Net Difference Between Projected and	2018	5 years	106,058	-	106,058	-
Actual Earnings on Pension Plan	2019	5 years	3,630,234	-	1,815,115	1,815,119
Investments	2020	5 years	(8,185,572)	-	(2,728,522)	(5,457,050)
	2021	5 years	400,676	-	100,169	300,507
	2022	5 years	-	53,531,778	10,706,354	42,825,424
Subtotal			<u>(4,048,604)</u>	<u>53,531,778</u>	<u>9,999,174</u>	<u>39,484,000</u>
Changes of Assumptions	2016	7 years	61,633,373	-	61,633,373	-
	2019	6 years	522,811,122	-	174,270,376	348,540,746
	2020	7 years	250,717,725	-	50,143,543	200,574,182
Subtotal			<u>835,162,220</u>	<u>-</u>	<u>286,047,292</u>	<u>549,114,928</u>
Total			<u>\$ 863,002,483</u>	<u>\$ 53,531,778</u>	<u>\$ 313,498,184</u>	<u>\$ 603,036,077</u>
Deferred Inflows of Resources:						
Differences between Expected and	2019	6 years	\$ (1,477,059)	\$ -	\$ (492,351)	\$ (984,708)
Actual	2021	7 years	(317,545,914)	-	(52,924,316)	(264,621,598)
	2022	6 years	-	(56,164,946)	(9,360,824)	(46,804,122)
Subtotal			<u>(319,022,973)</u>	<u>(56,164,946)</u>	<u>(62,777,491)</u>	<u>(312,410,428)</u>
Changes of Assumptions	2017	7 years	(103,331,076)	-	(51,665,538)	(51,665,538)
	2018	7 years	(130,661,652)	-	(43,553,885)	(87,107,767)
	2021	7 years	(183,284,562)	-	(30,547,429)	(152,737,133)
	2022	6 years	-	(1,206,473,661)	(201,078,941)	(1,005,394,720)
Subtotal			<u>(417,277,290)</u>	<u>(1,206,473,661)</u>	<u>(326,845,793)</u>	<u>(1,296,905,158)</u>
Total			<u>\$ (736,300,263)</u>	<u>\$ (1,262,638,607)</u>	<u>\$ (389,623,284)</u>	<u>\$ (1,609,315,586)</u>
Net			<u>\$ 126,702,220</u>	<u>\$ (1,209,106,829)</u>	<u>\$ (76,125,100)</u>	<u>\$ (1,006,279,509)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) will be recognized in pension expense as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
2023	\$ (148,820,236)
2024	(102,548,317)
2025	(230,449,636)
2026	(230,549,805)
2027	(293,911,515)
	<u>\$ (1,006,279,509)</u>

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

Notes to Schedule of Employer Contributions and Allocation Percentages and Schedule of Pension Amounts by Employer For the Year Ended September 30, 2022

5. COLLECTIVE DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES (continued)

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 7 years for 2022 amounts.

6. COLLECTIVE PENSION EXPENSE

The components of collective pension expense for the year ended September 30, 2022, (excluding that attributable to employer-paid member contributions) are as follows:

	Pension Expense
Service Costs	\$ 119,441,940
Interest on Total Pension Liability	144,894,105
Member Contributions (Employee)	(54,172,778)
Administrative Expenses, Net of Other Income (\$7,695,671)	7,501,177
Projected Earnings on Plan Investments	(18,215,503)
Amortization of Investment Return Differences	9,999,174
Amortization of Expected and Actual Experience Differences	(45,325,773)
Amortization of Changes in Assumptions	(40,798,501)
Funding Note	(89,198,738)
	<u>\$ 34,125,103</u>

7. SUBSEQUENT EVENTS

The System's management has evaluated subsequent events through April 19, 2024, the date the Schedules were available to be issued. The accompanying Schedules recognize the effects of subsequent events that provided evidence about conditions that exist at the balance sheet date, including the estimates inherent in the process of preparing the Schedules. The accompanying Schedules do not recognize the effect of subsequent events that did not exist at the balance sheet date, but disclosures of such events, if any, are included in the accompanying notes.

On October 3, 2022, the System received \$157,996,500 from the Funding Note. On October 2, 2023, the System received \$123,996,500 from the Funding Note, a shortfall of \$33,999,500 from the expected amount of \$157,996,500.

The expected collection years are from April 7, 2022, through October 1, 2051, with an aggregate expected collection of approximately \$3.8 billion.



**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, 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, the schedule of employer contributions and allocation percentages of the Government Employees' Retirement System of the Virgin Islands (the System) as of and for the year ended September 30, 2022, and the total for all entities of the columns titled net pension liability, total deferred outflows of resources, and total deferred inflows of resources (specified column totals) included in the schedule of pension amounts by employer of the System as of and for the year ended September 30, 2022 (collectively referred to as “the Schedules”), and the related notes to the Schedules, and have issued our report thereon dated April 22, 2024.

Report on Internal Controls over Financial Reporting

In planning and performing our audit of the Schedules, we considered the System’s internal controls over financial reporting (internal controls) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedules, but not for the purpose of expressing an opinion on the effectiveness of the System’s internal controls. Accordingly, we do not express an opinion on the effectiveness of the System’s internal controls.

A deficiency in internal controls exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal controls that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal controls that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's Schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the Schedules. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal controls or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Owings Mills, Maryland
April 22, 2024

SB + Company, LLC