EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
Years Ended September 31, 2012 and 2011
AND
INDEPENDENT AUDITORS' REPORT

BERT SMITH & Co.

Certified Public Accountants and Management Consultants

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of plan net assets of the Government of the Virgin Islands Employees' Retirement System (the System) as of September 30, 2012, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on the financial statements based on our audit. The prior year's summarized comparative information has been derived from the System's 2011 financial statement, and in our report dated October 23, 2012, we expressed a qualified opinion on those statements.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the System are intended to present only the portion of fund information of the Government of the Virgin Islands that are attributable to the transactions of 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, 2012.

As discussed in Note 3(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 $42,836,274 in the financial statements.

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 examine evidence supporting the carrying value of the investment described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the statement of net assets of the Government of the Virgin Islands Employees' Retirement System as of September 30, 2012, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

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Management's discussion and analysis on pages 3 through 14 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The schedules of funding progress and employer contributions on pages 38 through 39 are not a required part of the basic financial statements, but are required supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. The actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information on these pages has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Bert Smith & Co.

October 18, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2012

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 Plan Net Assets
- Statement of Changes in Plan Net Assets
- Notes to the Financial Statements
- Required Supplementary Information

The *Statement of Plan Net Assets* 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 Plan Net Assets* 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 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
Year Ended September 30, 2012

FINANCIAL ANALYSIS OF THE SYSTEM AS A WHOLE

Comparison of 2012 and 2011 Assets, Liabilities, and Net Assets

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

Net Assets	2012	2011	Increase (Decrease)	Percentage
Cash, cash equivalents and investments	$1,189,714	$ 1,201,820	$ (12,106)	(1.01%)
Foreign currency exchange contracts	-	2,110	(2,110)	(100%)
Member loans, net	143,806	139,470	4,336	3.11%
Real estate, net	95,600	96,810	(1,210)	(1.25%)
Other assets	17,552	20,292	(2,740)	(13.50%)
Total assets	1,446,672	1,460,502	(13,830)	(0.95%)
Total liabilities	145,334	186,519	(41,185)	(22.08%)
Total net assets	$1,301,338	$ 1,273,983	$ 27,355	2.15%

At September 30, 2012 and 2011, the System's total assets were $1.447 billion and $1.460 billion, respectively. This decrease in total assets resulted mainly from the net effect of the following:

- The cash and cash equivalents decreased by approximately $23.5 million as of September 30, 2012 from approximately $112.4 million as of September 30, 2011. The cash and cash equivalents excluding interest bearing deposits are segregated as follows (dollar amounts in thousands):

	2012	2011	Increase (Decrease)
Cash in money market accounts	$ 62,742	$ 71,064	$ (8,322)
Cash in operational accounts	26,169	41,380	(15,211)
Total cash and cash equivalents	$ 88,911	$ 112,444	$ (23,533)

- The Interest bearing deposits with financial institutions accounted for $14.5 million and $27.9 million, as of September 30, 2012 and 2011 respectively. The decrease is the result of the redemption of one of the System's certificates of deposits, proceeds from which, were used to provide a loan to the Government of the Virgin Islands.

- The decrease in money market accounts of approximately $8.3 million reflects the System's needs to continuously withdraw funds for operating expenses, and the increasing pension expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2012

- Investments increased approximately $49.2 million, which represented a 6.1% increase over September 30, 2011. Both the domestic and international common stock portfolios had positive performance for the fiscal year. For the year ended September 30, 2012 the total return on the investment portfolio amounted to 17.5%. 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 $128.5 million as of September 30, 2012 from approximately $166.3 million as of September 30, 2011. This decrease of $37.8 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 $5.6 million to approximately $3.0 million as of September 30, 2012 from approximately $8.6 million as of September 30, 2011.

- The members' loans increased $4.3 million to approximately $143.8 million as of September 30, 2012 from approximately $139.5 million as of September 30, 2011. The 3.11% increase was attributable primarily to the increase in personal loans granted during the year.

- The real estate decreased approximately $1.2 million due to the net effect of $704 thousand complex write down as a result of the 2012 appraisal and depreciation expense for the year of approximately $611 thousand.

- Total other assets decreased by approximately $2.7 million primarily due to the receipt of outstanding payments due from Central Government and other government agencies.

At September 30, 2012, the System's total liabilities were $145.3 million compared with $186.5 million at September 30, 2011. The decrease is primarily due to:

- Payable for collateral received under securities lending transactions decreased by approximately $37.8 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
Year Ended September 30, 2012

Comparison of 2012 and 2011 Additions, Deductions, and Changes in Plan Net Assets

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

Additions, Deductions, and Changes in Plan Net Assets	2012	2011	Increase (Decrease)	Percentage
Net appreciation/(depreciation) in fair value of investments	$ 143,062	$ (17,597)	$ 160,659	913%
Net depreciation in fair value of real estate	(705)	(88)	617	701%
Interest, dividends, and other	33,028	36,773	(3,745)	(10.19%)
Rental income, net	2,761	3,539	(778)	(21.98%)
Less investment management fees and custodian fees, borrowers' rebates and other agent fees on securities lending transactions, and other expenses	(5,038)	(5,870)	(832)	(14.17%)
Total investment (loss) income	173,108	16,757	156,351	933.05%
Total contribution income	104,404	123,847	(19,443)	(15.70%)
Other income	1,421	4,126	(2,705)	(65.56%)
Total additions (decrease)	278,933	144,730	134,203	92.72%
Benefits paid directly to members	225,770	202,900	22,870	11.27%
Refunds of members' contributions	7,327	5,281	2,046	38.74%
Administrative and operational expenses	18,481	14,853	3,628	24.43%
Total deductions	251,578	223,034	28,544	12.80%
Net increase (decrease)	$ 27,355	$ (78,304)	$ 105,659	134.93%

For the year ended September 30, 2012, operations resulted in a net increase in the plan net assets of approximately $27.3 million when compared to the net decrease of $78.3 million for the year ended September 30, 2011. This net increase of $105.6 million in the plan net assets resulted from the net effect of the following:

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

  Total net appreciation in fair value of investments for the year ended September 30, 2012 was approximately $143 million, reflecting in a 913% increase when compared to the $17.6 million net depreciation reported for the year ended September 30, 2011. This change was largely driven by a 17.5 percent return for the fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2012

The Fund's domestic and international common stock portfolios had positive performances for the fiscal year. This resulted in a net appreciation of $121 million for the fiscal year end compared to a $23.3 million decrease for the year ending September 30, 2011. Both funds were up 6.1 and 8.4 percent, respectively, for the fiscal year. Mutual Funds, which tracked the Standard & Poor's 500 Index, reflected a net change of $11.9 million for the same period. The net change in mutual fund assets were the result of the transitioning of the international equity and global fixed income assets from active separate accounts to commingled mutual fund accounts during the fiscal year. The Fund uses active and passive management in both its equity and fixed income allocations.

The Fund's fixed income components saw a net depreciation of approximately $2.7 million for U.S. Government and agency obligations and $1.7 million for mortgage and asset backed securities. Corporate obligations investments had a net appreciation of approximately $4.55 million and Foreign bonds and government obligations had a net depreciation of $595 thousand. In the second quarter of the fiscal year, the Fund's only global bond portfolio was transitioned from a separate account to a commingled mutual fund account.

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, 2012, 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 Depreciation in Fair Value of Real Estate**

The value of the GERS Complex was adjusted by $704 thousand in fiscal year 2012 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 $33 million for the year ended September 30, 2012 compared to approximately $36.8 million for the year ended September 30, 2011. The decrease of $3.7 million was due primarily to the net combination of the following factors: dividend income decreased $5.2 million and interest income and other increased $1.5 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2012

- **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 $5.04 million for the year ended September 30, 2012 from approximately $5.87 million for the year ended September 30, 2011.

- **Contribution Income**

  Total contribution income decreased by approximately 15.70% or $19.4 million to $104.4 million in fiscal year 2012 from $123.8 million in fiscal year 2011. This was due primarily to Act 7261 (VIESA-Virgin Islands Economic Stability Act of 2011) which resulted in employees being laid off, terminated, entering into early retirement and or being refunded their member contributions. This is reflected in the increase of approximately 38.74% or $2.05 million in contributions refunds over Fiscal 2011 contributions refunds of $5.28 million; and the increase in benefits paid to members.

- **Other Income**

  Other income decreased to $1.4 million for fiscal year ended September 30, 2012 from approximately $4.1 million dollars in fiscal year ended September 30, 2011.

- **Benefits Paid Directly to Members**

  Benefits paid directly to members increased to approximately $225.8 million for the year ended September 30, 2012 from approximately $202.9 million for the year ended September 30, 2011. This increase of 11.27% or $22.9 million was due primarily to Act 7261 which resulted in an increase in the overall number of retirees, with the majority coming from the Central Government, receiving benefits through the annuity payroll in fiscal 2012; and COLA of 1% given to retired and disabled beneficiaries.

- **Administrative and Operational Expenses**

  Administrative and operational expenses increased by approximately $3.6 million to approximately $18.4 million for the year ended September 30, 2012 from $14.8 million for the year ended September 30, 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2012

Comparison of 2011 and 2010 Assets, Liabilities, and Net Assets

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

Net Assets	2011	2010	Increase (Decrease)	Percentage
Cash, cash equivalents and investments	$1,201,820	$ 1,303,416	$ (101,596)	(7.79%)
Foreign currency exchange contracts	2,110	-	2,110	100%
Member loans, net	139,470	138,188	1,282	1%
Real estate, net	96,810	92,237	4,573	4.96%
Other assets	20,292	15,038	5,254	34.94%
Total assets	1,460,502	1,548,879	(88,377)	(5.71%)
Total liabilities	186,519	196,592	(10,073)	(5.12%)
Total net assets	$1,273,983	$ 1,352,287	$ (78,304)	(5.79%)

At September 30, 2011 and 2010, the System's total assets were $1.460 billion and $1.549 billion, respectively. This decrease in total assets resulted mainly from the net effect of the following:

- The cash and cash equivalents increased to approximately $112.4 million as of September 30, 2011 from approximately $101.2 million as of September 30, 2010. The cash and cash equivalents excluding interest bearing deposits are segregated as follows (dollar amounts in thousands):

	2011	2010	Increase (Decrease)
Cash in money market accounts	$ 71,064	$ 62,872	$ 8,192
Cash in operational accounts	41,380	38,314	3,066
Total cash and cash equivalents	$ 112,444	$ 101,186	$ 11,258

- Interest bearing deposits with financial institutions accounted for $27.9 million and $27.6 million, as of September 30, 2011 and 2010, respectively.

- The increase in money market accounts of approximately $8.2 million reflects the strategy of the fund managers to be in a liquid position to take advantage of the opportunistic conditions. The increase in operating cash was to make funds available to fund the increased pension expenditures.

- Holdings in foreign currency exchange contracts accounted for $2.1 million of total assets.

- Investments decreased approximately $109 million, which represented an 11% decrease over September 30, 2010. Both the domestic and international equity segments impacted the decreased performance of the Fund. For the year ended September 30, 2011 the total return on the investment portfolio amounted to 1%. The following is also noted:

- The invested securities lending collateral, which is included in cash, cash equivalents and investments, decreased to approximately $166.3 million as of September 30, 2011 from approximately $170.9 million as of September 30, 2010. This decrease of $4.58 million was offset by a similar decrease of the related liability. These securities lending transactions pay a predetermined interest rate with significant covenant protecting the lender to exposure to loss. The change is dependent on the securities loaned at year end by the System's custodian.

- The unsettled securities sold increased $810 thousand to approximately $8.64 million as of September 30, 2011 from approximately $7.79 million as of September 30, 2010.

- The members' loans increased $1.282 million to approximately $139.5 million as of September 30, 2011 from approximately $138.2 million as of September 30, 2010. The 1% increase was attributable primarily to the increased personal loans granted during the year. The allowance for losses increased from prior year.

- The real estate increased approximately $4.57 million due to the net effect of additions associated with the purchase of the Estate Coakley Bay property for $5 million and a write down of $87 thousand to record the St. Thomas Complex at its appraised value. Depreciation expense of $590 thousand was recognized during the year.

- Total other assets increased by approximately $5.25 million.

At September 30, 2011, the System's total liabilities were $186.1 million compared with $196.6 million at September 30, 2010.

- The System has a retirement benefits in process of payment of approximately $3.20 million as of September 30, 2011.

- The line of credit with financial institution for approximately $9.96 million as of September 30, 2010 was reduced to $-0-.

- Securities lending transactions decreased by approximately $4.58 million when compared to prior year, and is offset by a similar decrease in the related asset.

- The unsettled securities purchased increased $5.5 million to approximately $9.91 million as of September 30, 2011 from approximately $4.39 million as of September 30, 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2012

Comparison of 2011 and 2010 Additions, Deductions, and Changes in Plan Net Assets

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

Additions, Deductions, and Changes in Plan Net Assets	2011	2010	Increase (Decrease)	Percentage
Net (depreciation)/appreciation in fair value of investments	$ (17,597)	$ 68,699	$ (86,296)	(125.61%)
Net depreciation in fair value of real estate	(88)	(3,492)	3,404	97.48%
Interest, dividends, and other	36,773	38,722	(1,949)	(5.03%)
Rental income, net	3,539	3,057	482	15.73%
Less investment management fees and custodian fees, borrowers' rebates and other agent fees on securities lending transactions, and other expenses	(5,870)	(5,480)	390	7.12%
Total investment (loss) income	16,757	101,506	(84,749)	(83.49%)
Total contribution income	123,847	117,112	6,735	5.75%
Other income	4,126	2,653	1,473	55.52%
Total additions (decrease)	144,730	221,271	(76,541)	34.59%
Benefits paid directly to members	202,900	192,678	10,222	5.31%
Refunds of members' contributions	5,281	2,007	3,274	163.13%
Administrative and operational expenses	14,853	13,609	1,244	9.14%
Total deductions	223,034	208,294	14,740	7.08%
Net increase (decrease)	$ (78,304)	$ 12,977	$ (91,281)	(703.41%)

For the year ended September 30, 2011, operations resulted in a net decrease in the plan net assets of approximately $78.3 million when compared to the net increase of $13 million for the year ended September 30, 2010. This net decrease of $91.3 million in the plan net assets resulted from the net effect of the following:

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

  Total net depreciation in fair value of investments for the year ended September 30, 2011 was approximately $17.6 million, reflecting in a 126% decrease when compared to the $68.7 million net appreciation reported for the year ended September 30, 2010. For fiscal year ended September 30, 2011 the Fund experienced slightly negative returns with its equity portfolios giving up most of the gains that were generated in the first three quarters of the fiscal year in the last quarter of the fiscal year ending September 30, 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2012

The Fund's domestic and international common stock portfolios had negative performances for the fiscal year. This resulted in a net depreciation of $23.34 million for the fiscal year end compared to a $41.1 million increase for the year ending September 30, 2010. Mutual Funds, which tracked the Standard & Poor's 500 Index, reflected a net appreciation of $750 thousand for the same period. The Fund's equity investments met several challenges during the fiscal year, particularly in the fourth quarter, resulting in the overall net depreciation in both domestic and international equity portfolios. During the fourth quarter of fiscal year 2011 continued uncertainty about the economic situation in Europe, concerns about the possibility that Greece would default on its sovereign debt, and Standard & Poor's downgrade of U.S. sovereign debt were just some of the factors contributing to a rise in global volatility and renewed fears of a recession. Equity markets posted negative returns across geographies, investment styles, and market capitalizations, pushing all major equity indices into negative territory.

For the period ended September 30, 2011 the Fund's fixed income portfolio components saw a net appreciation of approximately $6 million for U.S. government and agency obligations, and $2 million for mortgage and asset-backed securities. Corporate obligations investments had a net depreciation of approximately $2 million, and $1 million for foreign bonds and government obligations. Fixed income markets outperformed equity markets particularly in the fourth quarter of fiscal year 2011. The Fund's fixed income managers focused on high quality assets that possessed strategic opportunities, which allowed for over performance in the respective portfolios. The Fund's Limited Partnership investments for the period ending September 30, 2011 saw a net appreciation of approximately $2 million.

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, 2011, 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 Depreciation in Fair Value of Real Estate**

The value of the St. Thomas Complex was adjusted to reflect its fair market value consistent with the implementation of GASB No. 25. The appraisal resulted in the write down of the property by $87 thousand.

- **Interest, Dividends, and Other**

Total interest, dividends, and other decreased to approximately $36.8 million for the year ended September 30, 2011 compared to approximately $38.7 million for the year ended September 30, 2010. The decrease of $1.9 million in interest, dividends, and other was due primarily to the net combination of the following factors: Interest income decreased to $13.7 million for the fiscal year ended September 30, 2011 from $16.8 million for fiscal year ended September 30, 2010. This reduction of $3.1 million was a result of the decreasing interest rate environment.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2012

Dividends increased $409 thousand in fiscal year ended September 30, 2011 to $8.9 million from approximately $8.5 million in fiscal year ended September 30, 2010. Dividend payouts in the fund still suffered from a slow recovery, as dividend-yielding stocks tended to lag the broader market for the year.

Other investment income increased to $1.01 million for fiscal year September 30, 2011 from $799 thousand for fiscal year September 30, 2010. The $214 thousand increase for fiscal year 2011 as compared to fiscal year 2010 is due primarily to income generated from the $792 thousand from securities lending transactions and unrealized gains on foreign exchange payables and other $220 thousand.

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

The investment and other fees increased to approximately $5.87 million for the year ended September 30, 2011 from approximately $5.48 million for the year ended September 30, 2010.

- **Contribution Income**

Total contribution income increased by approximately 6% or 6.7 million to $123.8 million in fiscal year 2011 from $117 million in fiscal year 2010.

- **Other Income**

Other income increased to $4.1 million for fiscal year ended September 30, 2011 from approximately $2.7 million dollars in fiscal year ended September 30, 2010.

- **Benefits Paid Directly to Members**

Benefits paid directly to members increased to approximately $202.8 million for the year ended September 30, 2011 from approximately $192.7 million for the year ended September 30, 2010 due primarily to the increase in the overall number of retirees receiving benefits through the annuity payroll and a cost of living adjustment of 1.5% and 1% provided to retired and disabled beneficiaries, respectively.

- **Administrative and Operational Expenses**

Administrative and operational expenses increased by approximately $1.2 million to approximately $14.8 million for the year ended September 30, 2011 from $13.6 million for the year ended September 30, 2010. The increase was mainly due to additional costs associated with the implementation of the new loans and benefits software to improve the delivery of services to the members of the System.

MANAGEMENT’S DISCUSSION AND ANALYSIS
Year Ended September 30, 2012

Investment Policies

The System has chosen to manage the investment risks by contractually requiring each portfolio investment manager to abide by restrictive investment guidelines specifically tailored to that individual manager rather than adopting across-the-board investment policies with respect to these investment risks. The guidelines stipulate the investment style, the performance objective, performance benchmarks, and portfolio characteristics.

For example, in the case of foreign currency risk, the policy guidelines for the U.S. dollar equity portfolios differ from those for the non-U.S. dollar equity portfolios. Likewise, in the case of credit risk, the guidelines for one fixed income manager stipulate a minimum acceptable credit rating for each debt instrument while the guidelines for a different fixed income portfolio merely require that the average of credit ratings for a certain fair value percentage of the portfolio meet a minimum requirement.

Each manager is likewise subject to a “manager standard of care” that establishes a fiduciary relationship requiring the manager to act prudently and solely in the best interest of the System.

Separately, the System’s guidelines also require a manager’s investment return performance to compare favorably with the performance of the relevant passive market index such as the Standard & Poor 500 Index.

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

STATEMENTS OF PLAN NET ASSETS

	Year Ended September 30, 2012	2011
Assets		
Cash and cash equivalents	$ 88,911,635	$ 112,443,834
Cash collateral received under securities lending transactions (Note 4)	128,495,428	166,343,091
Investments, at fair value (Note 3):		
Certificates of Deposits	14,526,306	27,972,226
U.S. government and agency obligations	73,424,684	103,101,416
Corporate obligations	62,576,613	74,603,504
Foreign bonds and government obligations	11,689,415	61,720,276
Common stock – U.S.	434,558,117	418,529,088
Common stock – foreign	42,256,684	68,296,081
Mortgage and asset-backed securities	84,000,927	71,333,097
Mutual funds	151,795,002	13,535,720
Unsettled securities sold	2,995,583	8,604,441
Investment loans	32,569,589	18,612,667
Real estate investment trust	6,172,367	3,809,724
Limited partnerships	55,741,370	52,915,221
Total cash, cash equivalents and investments	1,189,713,720	1,201,820,386
Foreign currency exchange contract (Note 3)	-	2,110,169
Member loans:		
Mortgage	7,739,425	8,457,957
Personal	136,698,882	131,607,788
Auto	134,466	171,384
	144,572,773	140,237,129
Less allowance for losses	(767,194)	(767,194)
	143,805,579	139,469,935
Real estate:		
Havensight Mall	66,600,000	66,600,000
System Complex	28,999,692	30,209,886
	95,599,692	96,809,886
Reserved assets	14,465	16,702
Due from the Department of Finance and other agencies of the Government of the U.S. Virgin Islands	8,885,430	12,556,509
Accrued interest receivable	4,246,131	3,719,760
Other	4,406,556	3,999,366
Total assets	1,446,671,573	1,460,502,713
Liabilities		
Foreign currency exchange contract (Note 3)	142,933	-
Retirement benefits in process of payment	3,505,193	3,203,498
Payable for collateral received under securities lending transactions (Note 4)	128,495,428	166,343,091
Unsettled securities purchased	2,848,173	9,919,124
Other liabilities	10,341,937	7,053,689
Total liabilities	145,333,664	186,519,402
Plan net assets held in trust for pension benefits	$1,301,337,909	$1,273,983,311

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

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	Year Ended September 30, 2012	2011
Additions:		
Investment income (loss):		
Net appreciation (depreciation)in fair value of investments	$ 143,062,474	$ (17,597,429)
Net depreciation in fair value of real estate	(704,783)	(87,431)
Interest and dividends	31,634,421	35,760,273
Other investment income	1,393,058	1,012,358
Rental income - net of related expenses:		
Havensight Mall	2,544,776	3,327,866
System Facilities - St. Thomas/St. Croix	215,815	210,863
	178,145,761	22,626,500
Less:		
Investment management fees and custodian fees	4,444,589	4,906,189
Borrowers' rebates and other agent fees on securities lending transactions	284,701	315,683
Other expenses	309,355	648,016
	173,107,116	16,756,612
Contributions:		
Employer	66,677,155	80,849,762
Employees	37,727,063	42,997,145
	104,404,218	123,846,907
Other income	1,421,153	4,125,894
Total additions	278,932,487	144,729,413
Deductions:		
Benefits paid directly to members	225,769,530	202,899,505
Refunds of members' contributions	7,326,942	5,280,759
Administrative and operational expenses	18,481,417	14,853,538
Total deductions	251,577,889	223,033,802
Net increase (decrease)	27,354,598	(78,304,389)
Plan net assets held in trust for pension benefits:		
Beginning of year	1,273,983,311	1,352,287,700
End of year	$1,301,337,909	$1,273,983,311

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

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

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, 2012 and 2011:

	2012	**2011**
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	8,151	7,868
Current employees	9,935	10,731
	18,086	18,599

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 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.

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

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

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

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, provided such person is under age 55 on the date of appointment. Membership contributions shall begin upon the completion of one month of service.

- **Contributions**

Contributions to the System are made by the Government and the members. Government and member contributions are not actuarially determined but are set by statute. The Government's contributions together with the members' 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, 2011 indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the cost of the System on an actuarial basis, as required by law.

The Government's required contribution is 17.5% of the members' annual salary and required member 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. Due to the volatility of the stock market, the GERS Board of Trustees changed 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. 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.

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

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 $26,929,005 and $26,922,763 as of September 30, 2012 and 2011, respectively, of which a total of $26,929,005 and $26,855,860, 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 8% and on second mortgages, 9% throughout the year. Members may also borrow up to $50,000, at 8% 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 was 8.5% 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 8.00% for the year. Retired members could qualify for personal loans up to $10,000 at the same interest rate as active members; and, effective fiscal year 2009, retirees were given the option of refinancing their personal loan provided the original amount is paid down by at least 50%. All loans have a mandatory credit life insurance.

- **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.

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

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

Basis of Accounting --- The accompanying financial statements are prepared using the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. 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.

Method 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 2009, the value has remained unchanged for September 30, 2012 and 2011. Management believes that the carrying value was applicable in both years.

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.

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.

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

Use of Estimates --- The preparation of financial statements in conformity 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 assets, 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.

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

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 conformity 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, 2012, from which the summarized information was derived.

2. Cash and Cash Equivalents

The cash and cash equivalents include the following:

	2012	2011
Cash in money market accounts	$ 62,742,220	$ 71,063,517
Cash in operational accounts	26,169,415	41,380,317
Total cash and cash equivalents	$ 88,911,635	$112,443,834

3. Investments

(a) Marketable Securities

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

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

- United States Government agencies and instrumentalities obligations;
- Bonds or notes which are general obligations of any state in the United States, or of any political subdivision;
- Bonds or other obligations which are payable from revenue or earnings specifically pledged of a public utility, which is municipally owned either directly or indirectly through any civil division, authority, or public instrumentality of the municipality;
- 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;

3. Investments *(continued)*

- Bonds or other evidences of indebtedness of any domestic industrial corporation provided that these securities bear a rating of "BBB" or better by any two nationally known security rating agencies. Not more than 2% of total investments should consist of any one issue of these bonds;

- Bonds or other obligations of the Commonwealth of Puerto Rico or of the territories of the United States, provided that the investment in any one issue of bonds of these entities should not exceed 10% thereof, and that the total investment in all securities of any one of such entities should be limited to 2% of the total investment account of the System;

- Bonds or other indebtedness issued by foreign governments or foreign corporations provided that (a) these securities bear a rating of "BBB" or better by any two internationally known securities rating agencies, and (b) not more than 2% of total investments should consist of any one issue of these bonds. The aggregate amount to be invested in foreign bonds should be limited to 10% of the market value of the total investments of the System on the date the investment is made;

- Common and preferred stocks of any corporation chartered under the laws of the United States, or of any state, district, or territory thereof or common and preferred stocks of any foreign corporation if listed on any internationally recognized security exchange.

  The investment in the stock of any single corporation should not exceed 1% of the market value of the total investment of the fund on the date of purchase or be greater than 1% of the total outstanding stock of the corporation. 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 active members and $10,000 for 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%;

3. Investments *(continued)*

- 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

Seaborne Airlines

In December 2009, the System executed an agreement with Seaborne Airlines to provide them with an interest-bearing term loan of $1,300,000 and a convertible coupon interest-bearing note of $2,000,000 both with terms of five years. All of Seaborne's property is pledged as collateral. At September 30, 2012 and September 30, 2011, the combined investment loan balance was $2,780,000 and $3,126,667, respectively.

On September 20, 2012 the parties agreed to an amendment/modification to the loan agreement and term note and provided for the modification of the convertible note as follows:

1) The original principal indebtedness of the term note was amended and restated to be $2,300,000. The unpaid principal of the term note shall bear interest at the rate of 6.25% per annum. The unpaid balance at September 30, 2012 is $1,780,000.

2) The original principal indebtedness of the convertible note was amended and restated to be $1,000,000. The interest is accrued at the rate of 8.25% per annum payable quarterly in arrears until the maturity date. The note may be prepaid in whole or in part with a prepayment penalty of $300,000. The unpaid balance at September 30, 2012 is $1,000,000.

On November 2, 2012, a loan agreement secured by a promissory note in the amount of $1,500,000 was made to Seaborne Airlines as part of the modification agreement. The unpaid principal balance of this loan shall bear interest, computed on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed but not more than 30 days in a month, at a rate of interest of 6.25% per annum. The term is 5 years, bearing interest on the principal sum outstanding at the rate of 6.25% per annum, payable in 20 quarterly installments of principal in the amount of $75,000 each, plus interest, with the entire balance due and payable in full with the 20th payment.

Carambola Northwest, LLC

On December 8, 2009, the System executed an agreement with Carambola Northwest, LLC "Carambola" for a $15 million, five-year interest bearing term loan. The collateral for the loan included the primary collateral consisting of all land and buildings of Carambola Beach Resort and Spa.

3. Investments *(continued)*

Carambola defaulted on the loan during the fiscal year and on May 11, 2012, GERS exercised its rights under the Loan Agreement and executed a preliminary Disposition Agreement with Carambola Northwest, LLC which provided that the Lender would assume control of the management of Carambola Beach Resort & Spa.

As of September 30, 2012, the gross investment loan balance was $17,577,422, which includes the unpaid principal balance of $14,750,000 and $2,827,422 in receivables due to the System.

VI Property Tax Revenue Anticipation Note

On November 14, 2011, the GERS entered into a loan agreement with the Government of the Virgin Islands (GVI) in the amount of $13 million 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 million. At September 30, 2012, the outstanding balance is $10,140,546.

(c) Limited Partnership

The total value of the limited partnership investments at September 30, 2012 and September 30, 2011 is as follows:

	2012	2011
Attilanus	$ 42,836,274	$ 42,836,274
Mesirow	12,905,096	10,078,947
Total cash and cash equivalents	$ 55,741,370	$ 52,915,221

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.

3. 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 million in 9% preference notes, $24 million in 9.5% mezzanine notes and residual notes and $13.7 million in cash. From this transaction the GERS 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.

The fair value of the limited partnership investment of $42,836,274 is based on the valuation reported on the System's financial statements as of September 30, 2010. The valuation provided by the Fund's general partner as of September 30, 2012 and 2011 was $53,037,140 and $58,489,660, respectively. Senior life settlement contracts do not have active trading markets from which fair value can be determined. The System did obtain an independent valuation of the investment; however, the conclusion was not definitive.

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, 2012 is $4,163,043.

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

The fair value of the System's investments at September 30, 2012 and 2011 amounted to $969,311,074 and $914,429,020 respectively. The investments generated interest and dividend income of $19,486,489 and $22,646,073 for the years ended September 2012 and 2011, 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 $143,062,474 in fiscal year 2012 when compared to $17,597,429 depreciation in fiscal year 2011 as follows:

	2012	2011
U.S. government and agency obligations	$ 2,735,757	$ 5,523,995
Corporate obligations	4,547,481	(2,028,851)
Foreign bonds and government obligations	(595,604)	(1,022,460)
Common and preferred stock - U.S.	109,024,880	(12,459,518)
Common and preferred stock - foreign	12,675,634	(10,884,815)
Mortgage and asset-backed securities	1,788,550	1,464,711
Mutual funds	11,889,945	749,794
Real Estate Investment Trust	1,019,683	(470,137)
Limited partnership	(23,852)	1,529,852
Totals	$143,062,474	$(17,597,429)

3. 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 bond or pledge collateral satisfactory to the U.S. Virgin Islands Commissioner of Finance to secure all funds deposited.

At September 30, 2012 and 2011, 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) 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.

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

3. Investments *(continued)*

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, 2012 include the following:

Standard & Poor's Credit Ratings:

	Fair Value	Credit Ratings
Corporate obligations	$ 200,702	AAA
Corporate obligations	235,601	AA+
Corporate obligations	1,279,541	AA
Corporate obligations	1,665,670	AA-
Corporate obligations	3,432,588	A+
Corporate obligations	4,795,020	A
Corporate obligations	14,085,456	A-
Corporate obligations	8,494,299	BBB+
Corporate obligations	19,953,958	BBB
Corporate obligations	6,388,616	BBB-
Corporate obligations	1,342,858	BB+
Corporate obligations	702,304	Not Rated
Foreign bonds and government obligations	4,174,082	AAA
Foreign bonds and government obligations	949,707	A-
Foreign bonds and government obligations	6,565,626	Not Rated
Investment loans	32,569,589	Not Rated
Mortgage and asset-backed securities	21,493,095	AAA
Mortgage and asset-backed securities	45,537,106	AA+
Mortgage and asset-backed securities	1,484,467	AA
Mortgage and asset-backed securities	727,346	A+
Mortgage and asset-backed securities	473,856	A
Mortgage and asset-backed securities	417,290	A-
Mortgage and asset-backed securities	853,420	BBB+
Mortgage and asset-backed securities	593,919	BBB
Mortgage and asset-backed securities	1,845	BB
Mortgage and asset-backed securities	247,493	B
Mortgage and asset-backed securities	752,348	CCC
Mortgage and asset-backed securities	59,720	CC
Mortgage and asset-backed securities	11,359,022	Not Available
Mutual Funds	151,795,002	Not Rated
Total	$ 342,631,546	

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

3. Investments *(continued)*

Moody's Investor Services Credit Ratings:

	Fair Value	Credit Ratings
Corporate obligations	$ 200,702	Aaa
Corporate obligations	2,601,193	Aa3
Corporate obligations	1,422,692	A1
Corporate obligations	7,109,219	A2
Corporate obligations	6,630,705	A3
Corporate obligations	15,122,507	Baa1
Corporate obligations	17,593,173	Baa2
Corporate obligations	10,279,453	Baa3
Corporate obligations	308,701	Ba1
Corporate obligations	205,964	Ba3
Corporate obligations	572,374	WR
Corporate obligations	529,930	Not Rated
Foreign bonds and government obligations	10,739,708	Aaa
Foreign bonds and government obligations	693,066	A3
Foreign bonds and government obligations	256,641	Baa1
Investment loans	32,569,589	Not Rated
Mortgage and asset-backed securities	65,245,386	Aaa
Mortgage and asset-backed securities	148,148	Aa1
Mortgage and asset-backed securities	760,643	Aa2
Mortgage and asset-backed securities	1,399,449	Aa3
Mortgage and asset-backed securities	70,609	A1
Mortgage and asset-backed securities	196,645	A2
Mortgage and asset-backed securities	147,342	A3
Mortgage and asset-backed securities	593,919	Baa1
Mortgage and asset-backed securities	143,117	Baa2
Mortgage and asset-backed securities	156,901	Ba1
Mortgage and asset-backed securities	147,280	Ba2
Mortgage and asset-backed securities	55,228	Ba3
Mortgage and asset-backed securities	47,509	B2
Mortgage and asset-backed securities	138,220	B3
Mortgage and asset-backed securities	211,131	Caa1
Mortgage and asset-backed securities	247,493	Caa2
Mortgage and asset-backed securities	274,891	Caa3
Mortgage and asset-backed securities	12,234,559	Not Available
Mortgage and asset-backed securities	1,782,457	Not Rated
Mutual funds	151,795,002	Not Available
Total	$ 342,631,546	

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

3. Investments *(continued)*

Cash and cash equivalents and other investments at September 30, 2012 include the following:

		Credit Ratings	
	Fair Value	Standard & Poor	Moody's
Cash and cash equivalents	$ 88,911,635	Not Rated	Not Rated
Certificate of Deposits	14,526,306	Not Rated	Not Rated
Common stock - U.S.	434,558,117	Not Rated	Not Rated
Common stock - foreign	42,256,684	Not Rated	Not Rated
Real estate investment trust	2,814,384	Not Rated	Not Rated
Real estate investment trust	3,357,983	Not Rated	Not Rated
U.S. government & agency obligations	8,634,504	AA+	Aaa
U.S. government & agency obligations	997,300	AA	Aa2
U.S. government & agency obligations	1,018,900	AA-	Aa1
U.S. government & agency obligations	2,723,972	Not Rated	Not Rated
U.S. Treasury Notes	13,097,537	AA+	Aaa
U.S. Treasury Bonds	41,208,285	AA+	Aaa
Municipals	85,634	AA+	Aaa
Municipals	574,063	AA-	Aa3
Municipals	416,768	A+	Aa3
Municipals	276,418	A+	A1
Municipals	530,658	A	Aa2
Municipals	411,322	A	A2
Municipals	2,000,151	A-	A1
Municipals	162,730	BB+	B3
Municipals	1,286,442	B-	B3
Limited partnership	55,741,370	Not Rated	Not Rated
Total cash, cash equivalents and other investments	$ 715,591,163		

The total System's cash, cash equivalents and investment securities at September 30, 2012 consists of:

Fixed income investments	$ 342,631,546
Cash, cash equivalents, and other Investments	715,591,163
	$1,058,222,709
Cash and cash equivalents	$ 88,911,635
Investments, at fair value	969,311,074
	$1,058,222,709

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

3. Investments *(continued)*

(h) 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, 2012, 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	$ 13,374,676	$ 3,326,684	$ 3,263,230	$ 3,291,392	$ 3,493,370	$ -
U.S. Treasury notes	41,208,285	-	20,989,592	20,218,693	-	-
U.S. Treasury bonds	13,097,538	-	-	1,997,710	11,099,828	-
Municipals bonds	5,744,185	-	828,090	574,063	4,342,032	-
Mutual funds	151,795,002	-	-	-	-	151,795,002
Corporate obligations	62,576,613	2,520,118	25,529,998	24,971,551	9,554,946	-
Foreign bonds	3,091,769	256,641	1,210,169	1,624,959	-	-
Government obligations-foreign	8,597,646	-	3,140,769	1,705,470	3,751,407	-
Mortgage and asset-backed securities	84,000,927	-	14,951,751	3,189,710	65,859,466	-
Investment Loans	32,569,589	-	32,569,589	-	-	-
Totals	$ 416,056,230	$ 6,103,443	$102,483,188	$57,573,548	$98,101,049	$ 151,795,002

(i) 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, 2012 and 2011. The fair value of the underlying securities on loan secured by noncash collateral amounted to $11,855,614 and $5,754,807 at September 30, 2012 and 2011, respectively.

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

(j) 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
Years Ended September 30, 2012 and 2011

3. Investments *(continued)*

(k) 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.

<u>Foreign Currency Risk Analysis</u>

Fair value of cash equivalents and investments exposed to foreign currency risk by currency as of September 30, 2012:

Currency	Cash Equivalents	Government Obligations Foreign	Foreign Bonds	Common Stock - Foreign	Total Exposure
Australian Dollar	$ 27,401	$ 3,621,082	$ -	$ 1,160,028	$ 4,808,511
Canadian Dollar	198	-	-	709,113	709,311
Danish Krone	-	-	-	671,118	671,118
Egyptian Pound	59	-	-	1,395,235	1,395,294
Euro Currency	5,776	1,225,156	4,742,299	16,493,607	22,466,838
Hong Kong Dollar	9,449	-	-	2,589,205	2,598,654
Japanese Yen	7,030	-	-	4,070,385	4,077,415
Norwegian Krone	-	-	-	1,321,265	1,321,265
Pound Sterling	65,473	-	2,100,878	8,539,021	10,705,372
Singapore Dollar	9	-	-	-	9
Swedish Krona	-	-	-	581,395	581,395
Swiss Franc	18,859	-	-	4,726,312	4,745,171
Thailand Baht	8,524	-	-	-	8,524
Totals	$ 142,778	$ 4,846,238	$ 6,843,177	$ 42,256,684	$ 54,088,877

(l) 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 assets. The fair value of forward currency exchange contracts outstanding at September 30, 2012 and 2011 is as follows:

	2012	2011
Forward currency purchases	$11,578,890	$41,384,374
Forward currency sales	11,435,957	39,274,205
	($142,933)	$ 2,110,169

3. Investments *(continued)*

During the year ended September 30, 2012, the System recognized a foreign exchange gain of $1,325,728. During the year ended September 30, 2011, the System recognized a foreign exchange loss of $3,106,268. Such gain (loss) is reported in interest, dividends and other investment income in the accompanying financial statements.

(m) Member Loans

The System's investments in member loans, net of allowances for loan losses, at September 30, 2012 and 2011 were $143,805,579 and $139,460,935, respectively. Such investments in member loans generated interest income of $10,994,389 and $11,170,145 for the years ended September 30, 2012 and 2011, respectively. The average interest rate was 8% for the years ended September 2012 and 2011.

(n) Real Estate

The investment in the Havensight Mall has an appraised market value of $66.6 million. The investment in the Havensight Mall real estate generated rental income, net of related expense, of $2,544,776 and $3,327,866 for the years ended September 30, 2012 and 2011, respectively.

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 System's adjustment of the St. Croix facilities based on the 2012 appraisal, resulted in a net write down of $704,745 at September 30, 2012.

The investment in the System Facilities --- St. Thomas/St. Croix as of September 30, 2012 and 2011 is as follows:

	2012	2011
Land	$ 11,322,161	$ 11,322,161
Building, improvements, and fixtures	20,650,041	21,248,848
	31,972,202	32,571,009
Less: accumulated depreciation and amortization	2,972,510	2,361,123
Totals	$ 28,999,692	$ 30,209,886

4. 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 2012 or 2011 as to the amount of loans the custodian can make on behalf of the System.

4. Securities Lending Transactions *(continued)*

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, 2012 and 2011, 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 2012 or 2011, 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, 2012 and 2011, such investment pool had a weighted average maturity of 45 days and 13 days, respectively, and an average expected maturity of 104 days and 133 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, 2012 and 2011, the fair value of securities on loan amounted to $138,708,867 and $165,956,108, 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 $142,543,973 including $128,495,428 of cash, and $173,337,753 including $166,343,091 of cash, as of September 30, 2012 and 2011, respectively. Investments made with cash collateral are reported as an asset of the System with a corresponding liability in the accompanying statements of net assets.

The following represents the balances relating to the securities lending transactions as of September 30, 2012.

Securities Lent	Underlying Securities	Cash Collateral Investment Value	Securities Collateral Investment Value
Lent for Cash Collateral:			
U.S. government and agency obligations	$ 9,957,306	$ 10,164,329	$ -
Corporate bonds	20,781,450	21,198,160	-
Common and preferred stocks	94,225,793	97,132,939	-
Lent for Securities Collateral:	-	-	-
U.S. government and agency obligations	13,307,818	-	13,591,464
Corporate bonds	-	-	-
Common and preferred stocks	436,500	-	457,081
Totals	$ 138,708,867	$ 128,495,428	$ 14,048,545

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

5. 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:

	2012	2011
Cash	$ 10,470	$ 12,755
Certificates of deposit	3,995	3,947
Totals	$ 14,465	$ 16,702

6. Due From the Department of Finance and Outside Agencies of the Government of the U.S. Virgin Islands

At September 30, 2012 and 2011, the amount recorded as due from the Department of Finance of the Government and outside agencies of the Government consists of the following:

	2012	2011
Contributions and payroll withholding due from Department of Finance	$ 3,578,144	$ 8,519,308
Outside agencies	5,307,286	4,037,201
Totals	$ 8,885,430	$ 12,556,509

7. Line of Credit with Financial Institution

On October 2, 2006, the System entered into a loan agreement with Banco Popular de Puerto Rico (the Bank) to provide working capital to the System for its corporate purposes, to fund the system's required debt service, and to pay issuance and closing costs associated with this financing. As of November 5, 2011, the System cancelled the Line of Credit financing agreement with Banco Popular.

8. Additional Pension Disclosures

(a) Plan Description

The System is the administrator of a cost-sharing multiple-employer defined benefit pension plan. The System, a component unit of the Government of the Virgin Islands, is administered by a Board of Trustees who exercises control and management of the System including the investment of its assets. The System provides retirement, death and disability benefits. Cost of living adjustments are provided at the discretion of the Board of Trustees. The System issues a publicly available financial report that includes financial statements and Requirement Supplementary Information (RSI). The Annual Required Contribution (ARC) is determined by Acts of the Legislature.

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

8. Additional Pension Disclosures *(continued)*

(b) Funding Status and Funding Progress

As of October 1, 2011, the most recent actuarial valuation shows the plan was 45% funded. The Actuarial Accrued Liability (AAL) for benefits was $3.2 billion and the actuarial value of assets was $1.45 billion, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of $1.72 billion. The covered payroll (projected annual payroll of active members covered by the plan) was $403 million and the ratio of UAAL to the covered payroll was 426.08%.

The schedules of funding progress and employer contributions, presented as RSI following the notes to the financial statements presents (i) a historical trend that indicates whether the actuarial value of plan assets are increasing or decreasing over time in relation to the AAL for benefits and (ii) the responsibility of the employer in meeting the actuarial requirements to maintain the retirement system on a sound financial basis.

(c) Actuarial Methods and Assumptions

The comparability of trend information, shown as RSI, is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligations as a factor.

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	October 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed group
Remaining amortization period	20 years
Asset valuation method	Actuarial value, but not less than 80% nor greater than 120% of market
Actuarial assumptions:	
Investment rate of return	7.5% per year compounded annually
Projected salary increases	4.0% per year compounded annually, attributable to inflation
Cost-of-living adjustments	Retirement benefits increased by 1.6% of the original amount each year after age 60. Disability benefits are also increased by 1%

9. 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.

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

10. 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.

11. 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 $4,444,589 and $4,906,189 for the years ended September 30, 2012 and 2011, respectively.

12. Subsequent Events

(a) Prior Years required GVI Contributions

The Government of the Virgin Islands failed to make its full contribution to the retirement system. Retirees would be negatively impacted at their retirement date because of the shortfall.

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 referenced in Note 3(b), to fund the shortfall in the prior year's government contributions.

The System is in negotiation with the Central Government which is intended to effect an agreement that will allow GERS to use excess collection of property taxes to pay the prior years' required contribution.

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

(b) Suspension of the Annual Cost-of-Living Adjustment (COLA)

Effective January 1, 2013, the Board suspended future COLA increases. This is reflected in the October 1, 2012 actuarial liabilities shown in the schedule of funding progress.

(c) Seaborne Airlines

Effective for payments due June 15, 2013 and thereafter, Seaborne has failed to make payment of principal and interest and has been notified that it was in default. In accordance with the Loan Agreement, Seaborne had until July 15, 2013 to cure the default but failed to do so. Top senior management is being replaced. In addition, the Board is undergoing restructuring pursuant to an initiative of the major shareholder, which will include an additional seat on the Board for GERS. No additional funds have been committed by GERS and the future of GERS' involvement in this investment has not yet been determined.

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

13. Other Matters

The System believes that it is entitled to receive $7 million per year from the Internal Revenue Service matching fund, starting in fiscal 2013. The appropriation was incorporated into Act No. 7261 – (Bill No. 29.0123). No funds have been received under this act.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
September 30, 2012

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Unfunded Actuarial Accrued Liability (UAAL)	(c) Actuarial Accrued Liability (a) + (b)	(d) Funded Ratio (a)/(c)	(e) Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (b)/(e)
1998 (2)	1,078,291,775	307,300,371	1,385,592,146	77.82%	(1)	(1)
1999 (3)	1,255,210,585	518,081,040	1,773,291,625	70.78%	307,568,648	168.44%
2000 (2)	1,330,089,822	525,608,964	1,855,698,786	71.68%	304,887,045	172.39%
2001	1,342,894,336	731,727,064	2,074,621,400	64.73%	298,909,928	244.80%
2002 (4)	1,337,676,064	815,884,419	2,153,560,483	62.11%	367,803,013	221.83%
2003	1,346,906,862	921,669,858	2,268,576,720	59.37%	338,444,739	272.33%
2004 (5)	1,360,288,336	977,502,024	2,337,790,360	58.19%	372,996,234	262.07%
2005 (6)	1,366,982,183	1,088,574,553	2,455,556,736	55.67%	355,462,276	306.24%
2006	1,421,093,035	1,236,571,529	2,657,664,564	53.47%	394,595,844	313.38%
2007 (7)	1,509,244,380	1,241,138,878	2,750,383,258	54.87%	419,161,255	296.10%
2008 (8)	1,530,604,789	1,310,218,726	2,840,823,515	53.88%	433,549,406	302.21%
2009 (9)	1,534,899,736	1,397,261,661	2,932,161,397	52.35%	458,154,309	304.98%
2010 (10)	1,505,970,212	1,513,059,673	3,019,029,885	49.88%	440,026,457	343.86%
2011	1,448,926,591	1,719,110,906	3,168,037,497	45.74%	403,473,988	426.08%
2012 (11)	1,327,038,907	1,603,758,454	3,168,037,497	45.28%	381,012,309	420.92%

Note: Data for the year ended September 30, 1996 is not available.

(1) Information not available.

(2) Estimated as of September 30, 1998 and 2000 based on the last actuarial valuation as of September 30, 1997 and 1999, respectively.

(3) Actuarial value of assets was fresh started at market value.

(4) Estimated based on the financial information provided as of September 30, 2002 for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was based on the September 30, 2001 amount projected to September 30, 2002 assuming actual experience matched the actuarial assumption.

(5) Estimated based on the financial information provided as of September 30, 2004 for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2001 assuming that actual experience during the October 1, 2001 to September 30, 2004 matched that assumed by the actuarial assumptions.

(6) Estimated based on the financial information provided as of September 30, 2005 for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2003 assuming that actual experience during the October 1, 2003 to September 30, 2005 matched that assumed by the actuarial assumptions.

(7) Based on financial information as of September 30, 2007 and the actuarial accrued liability was projected from the October 1, 2006 actuarial valuation assuming that actual experience during the October 1, 2006 to September 30, 2007 matched that assumed by the actuarial assumptions.

(8) Based on the financial information as of September 30, 2008 and the actuarial accrued liability was projected from the October 1, 2006 actuarial valuation assuming that actual experience during the October 1, 2006 to September 30, 2008 matched that assumed by the actuarial assumptions. Payroll was estimated based on reported contributions for the year.

(9) Based on the financial information as of September 30, 2009 and the actuarial accrued liability was projected from the October 1, 2006 actuarial valuation assuming that actual experience during the October 1, 2006 to September 30, 2009 matched that assumed by the actuarial assumptions. Payroll was estimated based on reported contributions for the year.

(10) Based on the financial information as of September 30, 2010 and the actuarial accrued liability was projected from the October 1, 2006 actuarial valuation assuming that actual experience during the October 1, 2006 to September 30, 2010 matched that assumed by the actuarial assumptions. Payroll was estimated based on reported contributions for the year.

(11) Based on the financial information as of September 30, 2012 and the actuarial accrued liability was projected from the October 1, 2011 actuarial valuation assuming that actual experience during the October 1, 2011 to September 30, 2012 matched that assumed by the actuarial assumptions. Payroll was estimated based on reported contributions for the year. The 2012 results also reflect the suspension of the COLA.

Actuarial valuation up to September 30, 1998:

The entry age normal with Frozen Initial Liability funding method does not determine Past Service Liability each year. Rather, it rolls forward the unfunded liability (UAAL) with adjustment for changes in benefits or assumptions.

The actuarial accrued liability shown above has been determined as the sum of the UAAL and the actuarial value of assets.

Actuarial valuation - September 30, 1999 - September 30, 2006:

Actuarial accrued liability determined under the Entry Age Normal Method.

See accompanying independent auditors' report on required supplementary information.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
September 30, 2012

	Annual Required Contributions	Contributions Made	Percentage Contributed
Year ended September 30:			
1998	62,578,121	45,984,661	73.48%
1999*	62,237,129	45,148,387	72.54%
2000	64,992,493	44,078,554	67.82%
2001*	64,179,332	43,387,158	67.60%
2002	95,186,021	50,594,531	53.15%
2003*	117,124,599	51,588,235	44.05%
2004**	108,358,399	54,084,454	49.91%
2005**	120,184,848	51,542,030	42.89%
2006**	131,059,471	65,061,430	49.64%
2007	137,797,268	60,778,382	44.11%
2008***	138,488,871	75,871,146	54.79%
2009***	147,490,851	80,177,004	52.35%
2010***	157,817,709	77,004,630	48.79%
2011***	162,841,336	80,849,762	49.65%
2012	178,644,349	66,677,154	37.32%

*Estimated based on prior year's actuarial valuation.
**Estimated based on FY 2003 actuarial valuation
*** Estimated based on FY 2006 actuarial valuation

See accompanying independent auditors' report on required supplementary information.