

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

---

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
*Year Ended September 30, 2016*  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**



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

---

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
*Year Ended September 30, 2016*

TABLE OF CONTENTS

<b>DESCRIPTION</b>	<b>PAGE</b>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-7
<b><i>Basic Financial Statements:</i></b>	
Statement of Plan Fiduciary Net Position	8-10
Statement of Changes in Plan Fiduciary Net Position	11
Notes to Financial Statements	12-32
<b><i>Required Supplementary Information:</i></b>	
Schedule of Employer Contributions:	
Exhibit 1 – Schedule of Changes in the Employers' Net Pension Liability and Related Ratios	33
Exhibit 2 – Notes Schedule of Changes in the Employers' Net Pension Liability	34
Exhibit 3 – Schedule of Employer Contributions – Last Ten Fiscal Years	35
Exhibit 4 – Notes to Schedule of Employer Contributions	36



## INDEPENDENT AUDITOR'S REPORT

1090 Vermont Ave., NW  
Suite 920  
Washington, DC 20005  
P.O. Box 2478  
Kingshill, VI 00851  
111 South Calvert St.  
Suite 2700  
Baltimore, MD 21202

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

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

We have audited the accompanying financial statements of the Employees' Retirement System of the Government of the U.S. Virgin Islands (the System), a component unit of the Government of the U.S. Virgin Islands, which comprise the statement of fiduciary net position as of September 30, 2016, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

T: 202.393.5600  
TF: 1.855.479.0548  
F: 202.393.5608

[bertsmithco.com](http://bertsmithco.com)  
[bsmith@bertsmithco.com](mailto:bsmith@bertsmithco.com)



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

As discussed in Note 1, the System is a component unit of the Government of the U.S. Virgin Islands for financial reporting purposes. The System's financial statements present the transactions that are attributable to the System. They do not purport to, and do not, present fairly the Government of the U.S. Virgin Island's overall financial position and results of operations as of and for the year ended September 30, 2016.

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

As discussed in Note 5 (c), the System holds an interest in a limited partnership, which invests in senior life insurance policies. The System has been unable to determine the fair value of its interest in the partnership and the ultimate recoverability of its investment. The investment is recorded at \$21,123,190 in the financial statements.

The System's financial statements does not present the schedule of changes in the employers' net pension liability and related ratios for the year ended September 30, 2016, in accordance with accounting principles generally accepted in the United States of America. The total pension liability was not actuarially calculated as of September 30, 2016. As a result, we were unable to obtain sufficient information for proper disclosure of the total pension liability, and related disclosure requirements.

### ***Qualified Opinion***

In our opinion, based on our audit, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs above, the financial statements referred to above present fairly, in all material respects, the fiduciary net position and changes in fiduciary net position of the Employees' Retirement System of the Government of the U.S. Virgin Islands as of September 30, 2016 and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis on pages 4 through 10, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information on pages 33 through 36, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Schedule of Changes in the Employers' net Pension Liability as of September 30, 2016, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic and historical context. Our opinion on the basic financial statements is not affected by this missing information.

### ***Other Information***

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the Employees' Retirement System of the Government of the U.S. Virgin Islands financial statements for the year ended September 30, 2015, which are presented with the accompanying financial statements. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Systems financial statements as a whole. The statements of fiduciary net position as of September 30, 2015, and the related statements of changes in fiduciary net position for the year then ended, are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statements of fiduciary net position as of September 30, 2015, and the related statements of changes in fiduciary net position for the year then ended are fairly stated in all material respects in relation to the financial statements from which they have been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2017, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Boet Smith", is written in a cursive style.

St. Croix, U.S. Virgin Islands  
March 24, 2017

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

---

## MANAGEMENT'S DISCUSSION AND ANALYSIS *Year Ended September 30, 2016*

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

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

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

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

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

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

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

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Year Ended September 30, 2016**

**Fiduciary Net Position**  
 September 30, 2016  
 (Dollar amounts expressed in thousands)

<b>Fiduciary Net Position</b>	<b>2016</b>	<b>2015</b>	<b>Increase (Decrease)</b>	<b>Percentage</b>
Cash, cash equivalents and investments	\$742,566	\$ 828,287	\$ (85,721)	(10.35%)
Member loans, net	127,700	159,218	(31,518)	(19.80%)
Real estate, net	72,268	72,885	(617)	(.85%)
Other assets	18,110	11,837	6,273	52.99%
<b>Total assets</b>	<b>960,644</b>	<b>1,072,227</b>	<b>(111,583)</b>	<b>(10.41%)</b>
Stock lending transactions	24,032	65,199	(41,167)	(63.14%)
Other liabilities	19,450	15,987	3,463	21.66%
<b>Total liabilities</b>	<b>43,482</b>	<b>81,186</b>	<b>(37,704)</b>	<b>(46.44%)</b>
<b>Total net position</b>	<b>\$ 917,162</b>	<b>\$ 991,041</b>	<b>\$ ( 73,879)</b>	<b>(7.45%)</b>

At September 30, 2016 and 2015, the System's total assets were \$961 million and \$1.1 billion, respectively. This decrease in total assets resulted mainly from the net effect of the following:

- The cash and cash equivalents decreased by approximately \$13.9 million as of September 30, 2016 from approximately \$57.2 million as of September 30, 2015 to approximately \$43.2 million as of September 30, 2016. The cash and cash equivalents excluding interest bearing deposits are segregated as follows (dollar amounts in thousands):

	<b>2016</b>	<b>2015</b>	<b>Increase (Decrease)</b>
Cash in money market accounts	\$ 28,080	\$ 26,988	\$ 1,092
Cash in operational accounts	15,151	30,189	(15,038)
<b>Total cash and cash equivalents</b>	<b>\$ 43,231</b>	<b>\$ 57,177</b>	<b>\$ (13,946)</b>

- At September 30, 2016 there was no interest bearing deposits with financial institutions as a result of management's decision to close all certificates of deposit accounts, except for Note 7 Reserve Assets.
- The increase in cash held in money market accounts of approximately \$1.1 million is the result of the System's need to have cash readily available to meet the Retiree payroll cost.

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

---

### MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* *Year Ended September 30, 2016*

- Cash, cash equivalents and investments decreased approximately \$85.7 million, which represented a 10.35% decrease over September 30, 2015. For the year ended September 30, 2016 the total return on the investment portfolio amounted to 8.2%. The following is also noted:
  - The invested cash collateral received under lending transactions, which is included in cash, cash equivalents and investments, decreased to approximately \$24.0 million as of September 30, 2016 from approximately \$65.2 million as of September 30, 2015. This decrease of \$41.2 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 \$54 thousand to approximately \$521 thousand as of September 30, 2016 from approximately \$575 thousand as of September 30, 2015.
  - The investment loans increased approximately \$4.8 million to approximately \$31.4 million as of September 30, 2016 from approximately \$26.6 million as of September 30, 2015.
- The members' loans decreased \$31.5 million to approximately \$129.1 million as of September 30, 2016 from approximately \$160.5 million as of September 30, 2015. The 19.6% decrease was attributable primarily to the suspension of the member loan program.
- The real estate decreased to \$72.3 million which is net of depreciation.
- Total other assets increased by approximately \$6.3 million primarily due to the increase in outstanding payments due from Central Government and other government agencies.

At September 30, 2016, the System's total liabilities were \$43.5 million compared with \$81.2 million at September 30, 2015. The decrease is primarily due to:

- Payable for collateral received under securities lending transactions decreased by approximately \$41.2 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.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Year Ended September 30, 2016**

**Comparison of 2016 and 2015 Additions, Deductions and Changes in Fiduciary Net Position**

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

<b>Additions, Deductions and Changes in Fiduciary Net Position</b>	<b>2016</b>	<b>2015</b>	<b>Increase (Decrease)</b>	<b>Percentage</b>
Net (depreciation) appreciation in fair value of investments	\$ 57,226	\$ (14,295)	\$ 71,521	500.32%
Interest, dividends, and other	17,759	22,019	(4,260)	(19.35%)
Rental income, net	(1,073)	1,482	(2,555)	(172.40%)
Less investment management fees and custodian fees, borrowers' rebates and other agent fees on securities lending transactions, and other expenses	2,918	4,238	(1,320)	(31.15%)
Total investment income	70,994	4,968	66,026	1329.03%
Total contribution income	127,806	108,533	19,273	17.76%
Other income	1,599	1,161	438	37.73%
Total additions	200,399	114,662	85,737	74.77%
Benefits paid directly to members	250,033	246,072	3,961	1.61%
Refunds of members' contributions	8,978	4,038	4,940	122.34%
Administrative and operational expenses	15,267	16,402	(1,135)	(6.92%)
Total deductions	274,278	266,512	7,766	2.91%
Net decrease	\$ (73,879)	\$ (151,850)	\$ 77,971	51.35%

For the year ended September 30, 2016, operations resulted in a net decrease in the plan net assets of approximately \$73.9 million when compared to the net decrease of \$151.8 million for the year ended September 30, 2015. This change of \$77.9 million in the plan net assets resulted from the net effect of the following:

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

Total net appreciation in fair value of investments for the year ended September 30, 2016 was approximately \$57.2 million, reflecting a 500.32% increase when compared to the \$14.3 million net depreciation reported for the year ended September 30, 2015. This change was primarily driven by an 8.2 percent return for the fiscal year 2016 versus a -1.0 percent return for the prior fiscal year.

Domestic common stock appreciation in fair value for the year ended September 30, 2016 was approximately \$15.2 million, reflecting a 1296.93% increase compared to the \$1.1 million net appreciation reported for the year ended September 30, 2015. This was largely driven by domestic equity's return of 13.5 percent for the fiscal year 2016 versus a 1.6 percent return for the prior fiscal year. Continued job growth, record high profit margins and a weaker dollar elevated domestic equity prices.

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

**STATEMENT OF FIDUCIARY NET POSITION**

**SEPTEMBER 30, 2016**

*(With Comparative Totals for 2015)*

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
U.S. government and agency obligations	\$ 495,604	\$ 849,323	\$ (353,719)	(41.65%)
Corporate obligations	870,117	(510,739)	1,380,856	270.36%
Foreign bonds and government obligations	-	493,899	(493,899)	(100.00%)
Common and preferred stock – U.S.	15,236,054	1,090,680	14,145,374	1,296.93%
Common and preferred stock – foreign	-	(1,066,049)	1,066,049	(100.00%)
Mortgage and asset-backed securities	47,361	(101,651)	149,012	146.59%
Commingled and mutual funds	43,877,603	(13,815,951)	57,693,554	417.59%
Real estate investment	584,690	5,939,671	(5,354,981)	(90.16%)
Investment loans	-	(3,695,002)	3,695,002	(100.00%)
Limited partnership	(3,885,374)	(3,479,309)	(406,065)	(11.67%)
Totals	<u>\$57,226,055</u>	<u>\$(14,295,128)</u>	<u>\$ 71,521,183</u>	<u>500.32%</u>

Commingled and mutual funds appreciation in fair value for the year ended September 30, 2016 was approximately \$43.9 million, reflecting a 417.59% increase compared to the \$13.8 million net depreciation reported for the year ended September 30, 2015. Commingled funds are diversified across domestic equity and fixed income as well as international equity and fixed income. Strong fiscal year 2016 returns in comparison to largely weak or negative fiscal year 2015 returns had a positive impact on the System's commingled assets. This was in conjunction with the System's reduced need to liquidate assets.

Fixed income consists of U.S. Government and Agency, Corporate, and Mortgage and Asset-backed. Fixed income net appreciation in fair value for the year ended September 30, 2016 was approximately \$1.4 million compared to the \$237 thousand net appreciation for the year ended September 30, 2015. This was largely driven by domestic fixed income's return of 5.8 percent for the fiscal year 2016 versus a 1.5 percent return for the prior fiscal year. A flattening of the yield curve, spread tightening and the United Kingdom's vote to exit the European Union all drove domestic fixed income prices. The composition of the net appreciation and depreciation is as follows:

- U.S. Government and Agencies – \$496 thousand
- Corporate – \$870 thousand
- Mortgage and Asset-backed – \$47 thousand

The System is a long-term investor and manages the pension fund with long-term goals in mind. The primary investment philosophy of the System is diversity among various asset classes, which is the best way to achieve its long-term goal. As of fiscal year September 30, 2016, the asset allocation was out of line with the System's target. GERS management along with its Board of Trustees, under advisement from the financial advisors, has shifted to a dynamic asset allocation strategy to adjust the asset allocation in an effort to reduce the risk of the overall portfolio. The System will continue to review all investment programs and monitor the investment managers who are responsible for investing assets on the System's behalf.

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

## STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2016

*(With Comparative Totals for 2015)*

■ **Real Estate**

Total real estate decreased to \$585 thousand for the fiscal year ended September 30, 2016 compared to an approximate \$5.9 million increase for the fiscal year ended September 30, 2015.

■ **Interest, Dividends, and Other**

Total interest, dividends, and other decreased to approximately \$17.8 million for the year ended September 30, 2016 compared to approximately \$22 million for the year ended September 30, 2015. The decrease of \$4.3 million was due primarily to the net combination of the following factors: interest income decreased approximately \$1.5 million; and investment and dividend income decreased approximately \$2.6 million.

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

The Custodian and investment advisers of the System's investment fund are entitled to annual fees computed on the basis of the market value of the System's investment fund assets and for reimbursement of out-of-pocket expenses incidental to custodial duties. Such investment and other fees decreased to approximately \$2.9 million for the year ended September 30, 2016 from approximately \$4.2 million for the year ended September 30, 2015. Since the system overall asset decrease so does the overall fees. All fees were based on asset values.

■ **Contribution Income**

Total contribution income increased by approximately 17.76% or \$19.3 million to \$127.8 million in fiscal year 2016 from \$108.5 million in fiscal year 2015. This was due primarily to the receipt of \$7,000,000 from the Internal Revenue Matching Fund pursuant to Act 7261; and members retiring, which resulted in the payment of the employers' share of delinquent prior years contributions for those who had entered into retirement and a 1% increase to the active employee contribution. This is further reflected in an increase in benefits paid to members by approximately 1.61% or \$3.9 million over Fiscal 2015. Additionally, contributions refunded increased by 122.34% or \$4.9 million over Fiscal 2015.

■ **Other Income**

Other income increased to \$1.6 million for fiscal year ended September 30, 2016 from approximately \$1.2 million dollars in fiscal year ended September 30, 2015.

■ **Benefits Paid Directly to Members**

Benefits paid directly to members increased to approximately \$250 million for the year ended September 30, 2016 from approximately \$246.1 million for the year ended September 30, 2015. This increase of 1.61% or \$3.9 million was due primarily to the net effect of annuities paid which include retro payments from prior periods; regular monthly annuity; duty connected disability; and death benefits.

■ **Administrative and Operational Expenses**

Administrative and operational expenses decreased by approximately \$1.1 million to approximately \$15.3 million for the year ended September 30, 2016 from \$16.4 million for the year ended September 30, 2015.



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

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

**SEPTEMBER 30, 2016**

*(With Comparative Totals for 2015)*

	<b>Year Ended September 30,</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
Additions:		
Investment income:		
Net (depreciation) appreciation in fair value of investments	\$ 57,226,055	\$ (14,295,128)
Interest and dividends	17,204,627	21,001,314
Other investment income	554,549	1,017,592
Rental income - net of related expenses	<u>(1,073,346)</u>	<u>1,482,049</u>
	73,911,885	9,205,827
Less:		
Investment management fees and custodian fees	2,664,722	3,995,241
Borrowers' rebates and other agent fees on securities lending transactions	195,755	116,137
Other expenses	<u>57,473</u>	<u>126,847</u>
	<u>70,993,935</u>	<u>4,967,602</u>
Contributions:		
Employer	86,346,838	72,287,934
Employee	<u>41,459,511</u>	<u>36,245,016</u>
	<u>127,806,349</u>	<u>108,532,950</u>
Other income	<u>1,599,307</u>	<u>1,161,300</u>
Total additions	<u>200,399,591</u>	<u>114,661,852</u>
Deductions:		
Benefits paid directly to members	250,033,339	246,072,384
Refunds of members' contributions	8,977,829	4,037,871
Administrative and operational expenses	<u>15,267,630</u>	<u>16,401,721</u>
Total deductions	<u>274,278,798</u>	<u>266,511,976</u>
Net (decrease) in net position	(73,879,207)	(151,850,124)
Net position restricted for pensions:		
Net position beginning of year	<u>991,041,251</u>	<u>1,142,891,375</u>
Net position end of year	<u>\$ 917,162,044</u>	<u>\$ 991,041,251</u>

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

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

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2016*

**1. Summary of Significant Accounting Policies**

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

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

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

Membership of the System consisted of the following at September 30, 2016:

	<u>2016</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	8,721
Current employees	<u>9,385</u>
	<u>18,106</u>

The System provides for retirement, death, and disability benefits to plan members. Benefits may be extended to beneficiaries of plan members. Regular Tier I employees who have completed 30 years of credited service or have attained age 60 with at least 10 years of credited service are eligible for a full service retirement annuity. Regular Tier II employees who have attained age 65 with at least ten years of service are eligible for a full service retirement annuity. Members who are considered "safety employees" as defined in the Code are eligible for full retirement benefits when they have earned at least 20 years of government service or have reached the age of 55 with at least 10 years of credited service. Tier I regular and safety employees who have attained age 50 with at least 10 years of credited service may elect to retire early with a reduced benefit. Tier II regular and safety employees who have attained age 60 with at least 10 years of credited service may elect to retire early with a reduced benefit. Senators and members of the Legislature may receive a retirement annuity when they have attained age 50 and upon the completion of 6 years of credited service as a member of the legislature.

The semi-monthly annuity benefit 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.

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

## NOTES TO FINANCIAL STATEMENTS

*Year Ended September 30, 2016*

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

The annual increase in the case of a disability annuity shall be 1 percent per year prior to the member's attainment of age 60 and 1.5 percent per year thereafter.

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

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

#### ■ **Eligibility and Membership**

As a condition of employment, a person employed by the Government shall become a member of the plan, except that persons in Tier I over 55 on the date of appointment may opt out of the plan by providing formal notification to the System. Tier II members cannot opt out of membership. Membership contributions shall begin upon the completion of one month of service. Employees compensated on contract, fee basis, casual, per diem or provisional and part-time employees who work less than 20 hours per week are excluded from membership.

#### ■ **Contributions**

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

The contributions required to fund the System on an "actuarial reserve basis" are calculated periodically by the System's actuarial consultant. The actuarial valuation as of October 1, 2015 indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the costs of the System on an actuarial basis.

The employer's required contribution is 20.5% of the employee's annual salary and required employee contributions are 10% and 10.5% of annual salary for Tier I and Tier II regular employees respectively; 14% for both Tier I and Tier II senators, 16% and 15% for Tier I and Tier II judges respectively, and 12% and 12.625% for Tier I and Tier II safety (hazardous employees and eligible employees under Act 5226) respectively. Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective November 2, 2005, legislation was passed that required that the annual interest on refunded contributions be determined by the Board based on the experience of the System which shall not be less than 2%, nor more than 4% per annum. The system set the interest rate to 2% effective July 1, 2009.

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

## NOTES TO FINANCIAL STATEMENTS

*Year Ended September 30, 2016*

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

#### ■ 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.

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, the total due of \$26,944,627 was collected.

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

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

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

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



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

## NOTES TO FINANCIAL STATEMENTS

*Year Ended September 30, 2016*

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

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.

Havensight Mall real estate is based on an independent appraisal as of October 2014. The value in this investment remained at \$41,000,000 at September 30, 2016.

The System's complex and other real property - 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. The remaining real estate is based on independent appraisal.

Carambola NW-LLC d/b/a Renaissance St. Croix Carambola Beach Resort and Spa is based on an independent appraisal as of 2015. The value in this investment remained at \$8,000,000 at September 30, 2016.

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

**Comparative Totals** --- The financial statements include certain prior year's summarized comparative information. Such information does not include sufficient detail on reclassifications to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended September 30, 2015, from which the summarized information was derived.

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

NOTES TO FINANCIAL STATEMENTS  
Year Ended September 30, 2016

2. Cash and Cash Equivalents

The cash and cash equivalents include the following:

	<u>2016</u>
Cash in money market accounts	\$ 28,079,685
Cash in operational accounts	15,151,455
Total cash and cash equivalents	<u>\$ 43,231,140</u>

3. Accounting Changes

GASB issued Statement No. 72, *Fair Value Measurement and Application* – to address the accounting and reporting issues associated with fair value (the price that would be received to sell an asset or paid to transfer a liability between market participants at the measurement date) measurement. This statement was implemented in fiscal year 2016.

4. Net Pension Liability

The components of the net pension liability (NPL) as of September 30, 2016 are shown below. The net pension liability was measured as of October 1, 2015, and the total pension liability was determined by an actuarial valuation as of that date:

Total pension liability	\$5,062,702,088
Plan fiduciary net position	<u>991,041,251</u>
Employers' net pension liability	4,071,660,837
Plan fiduciary net position as a percentage of the total pension liability	19.58%

\*Based on draft financial statements

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of October 31, 2015 using the following actuarial assumptions, applied to all periods included in the measurements:

- Inflation - 2.50%
- Salary increase - 3.25%, including inflation
- Investment rate of return - 3.84%, net of pension plan investment expense, including inflation

Mortality rates for healthy lives were based on 110% of the RP-2014 Blue Collar Healthy Annuitant and Employee Mortality tables with generational projection from 2015 using Scale MP-2015. Mortality rates for disabled lives were based on 125% of the RP-2014 Disabled retiree Mortality table with generational projection from 2015 using Scale MP-2015.

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

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

**NOTES TO FINANCIAL STATEMENTS**

*Year Ended September 30, 2016*

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

The long-term expected rate of return of 7.0% on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016 are summarized as follows:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic equity	28%	6.82%
International equity	10%	8.44%
Fixed income	26%	1.72%
Alternatives	32%	6.50%
Cash	4%	1.12%
<b>Total</b>	<u>100%</u>	

*Discount rate:* The discount rate used to measure the total pension liability was 3.84% as of September 30, 2015. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the increases in the employee contribution rates effective January 1, 2016 and 2017. Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments of 7.0% was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by projected assets, the yield on a 20-year AA Municipal Bond Index was applied. As of September 30, 2015 that rate was 3.71%.

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability calculated using the discount rate of 3.84%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.84%) or 1-percentage-point higher (4.84%) than the current rate:

	<b>1% Decrease (2.84%)</b>	<b>Current Discount (3.84%)</b>	<b>1% Increase (4.84%)</b>
Net pension liability	\$4,758,924,284	\$4,071,660,837	\$3,504,899,199

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

---

## NOTES TO FINANCIAL STATEMENTS *Year Ended September 30, 2016*

### 5. Investments

#### *(a) Marketable Securities*

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

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

- United States Government agencies and instrumentalities obligations;
- Bonds or notes which are general obligations of any state in the United States, or of any political subdivision;
- Bonds or other obligations which are payable from revenue or earnings specifically pledged of a public utility, which is municipally owned either directly or indirectly through any civil division, authority, or public instrumentality of the municipality; provided that (a) the municipality has at least 30,000 inhabitants; (b) the utility has been in operation for at least 10 years prior to the date of the investment; (c) bonds or other obligations of such utility have not been in default for any period longer than 30 days; (d) rates for service are fixed and maintained and collected at all times so as to produce sufficient revenue or earnings to pay all operating and maintenance charges and both the principal and interest on such bonds or obligations; (e) the total investment in this type of security shall not at any time exceed 10 percent of the total investment of the System.
- Bonds or any other evidences of indebtedness issued or guaranteed by any domestic railroad corporation, or in equipment trust certificates, provided that these securities bear a rating of "BBB" or better by any two nationally known security rating agencies. Not more than 2% of total investments should consist of any one issue of these bonds;
- Bonds or other evidences of indebtedness of any domestic public utility corporation provided that these securities and investments bear a rating of "BBB" or better by any two nationally known security rating agencies. Not more than 2% of total investments should consist of any one issue of these bonds;
- Bonds or other evidences of indebtedness of any domestic industrial corporation provided that these securities bear a rating of "BBB" or better by any two nationally known security rating agencies. Not more than 2% of total investments should consist of any one issue of these bonds;

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

---

**NOTES TO FINANCIAL STATEMENTS**

*Year Ended September 30, 2016*

**5. Investments (continued)**

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

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

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

- 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;
- Real property purchased and/or developed by the board of trustees for sale for homeownership purposes;
- Loans to approved businesses by the Board of Trustees as alternative investments.

**(b) Investment Loans**

**VI Property Tax Revenue Anticipation Note**

On November 14, 2011, the System entered into a loan agreement with the Government of the U.S. Virgin Islands (GVI) in the amount of \$13,000,000 at an interest rate of 4.91% and a maturity date of December 15, 2016. The security for the note is the pledged real property tax receipts from the delinquent real property tax receivables, including penalties and interest for tax years prior to and including 2005 totaling approximately \$36,000,000. At September 30, 2016, the outstanding balance is \$4,996,954.

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

NOTES TO FINANCIAL STATEMENTS  
Year Ended September 30, 2016

5. Investments (continued)

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

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

On September 24, 2013, the System entered into a loan agreement with KAZI Foods of the Virgin Islands, Inc. in the amount of \$6,000,000 at an interest rate of 6.25% and a maturity date of October 23, 2023. At September 30, 2016, the outstanding principal balance on the loan is \$5,411,683.

**V.I. Finest Foods, LLC**

On June 30, 2014, the System entered into a construction loan agreement with V.I. Finest Foods, LLC in the principal amount of up to \$8,205,989.26 at an interest rate of 6.4%, an interest only period of 17 months and a fully amortizing period of 103 consecutive months.

The loan was subsequently modified on May 24, 2016 to provide an increase in the principal amount of the loan of an amount up to \$11,000,000, and extending the maturity date to March 31, 2025. At September 30, 2016, the outstanding principal balance on the loan is \$10,919,587.

(c) **Limited Partnership**

The total value of the limited partnership investments at September 30, 2016 is as follows:

	<b>2016</b>
Attilanus	\$ 21,123,190
Mesirow	19,055,656
Total Limited Partnership	<u>\$ 40,178,846</u>

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

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

- The investment is in a group of life insurance policies, with a minimum number of 100 measured lives.

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

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

### 5. Investments (continued)

- The face value of any single policy investment by the System does not exceed the greater of \$5,000,000 or 2% of the aggregate face value of policy investments by the System.
- The aggregate face value of policy investments by the System on any individual life does not exceed the greater of 10,000,000 or 1% of the aggregate face value of policies purchased as investments by the System.

On 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, 2016 was \$10,000,000.

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

The fair value of the System's investments at September 30, 2016 amounted to \$675,302,942. The investments generated interest and dividend income of \$6,084,954 for the year ended September 2016.

In addition, the net appreciation in fair value System's investments including gains and losses on investments bought and sold, as well as held during the year, totaled \$57,226,055 in fiscal year 2016, as listed below:

	<u>2016</u>
U.S. government and agency obligations	\$ 495,604
Corporate obligations	870,117
Common and preferred stock - U.S.	15,236,054
Mortgage and asset-backed securities	47,361
Commingled and mutual funds	43,877,603
Real estate investment trust	584,690
Limited partnership	<u>(3,885,374)</u>
Totals	<u>\$ 57,226,055</u>

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

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

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

### NOTES TO FINANCIAL STATEMENTS

*Year Ended September 30, 2016*

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

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

At September 30, 2016, all cash and cash equivalents were covered by federal deposit insurance, corporate surety bonds, or by collateral held by the System.

#### **(f) Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer of securities. The System's investment policy (the Investment

Policy) establishes limitations on portfolio composition by investment type to limit its exposure to concentration of credit risk.

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

#### **(g) Risk**

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

#### **(h) Credit Risk**

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

The fair value and credit ratings of debt securities (excluding U.S. government obligations and obligations expressly guaranteed by the U.S. government), money market funds, mutual funds, and other pooled investments of fixed income securities at September 30, 2016 include the following:



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

NOTES TO FINANCIAL STATEMENTS  
 Year Ended September 30, 2016

5. Investments (continued)

Standard & Poor's Credit Ratings:

	<u>Fair Value</u>	<u>Credit Ratings</u>
Corporate obligations	\$ 423,440	AAA
Corporate obligations	607,885	AA+
Corporate obligations	311,757	AA
Corporate obligations	869,548	AA-
Corporate obligations	529,406	A+
Corporate obligations	2,032,793	A
Corporate obligations	5,275,150	A-
Corporate obligations	7,941,008	BBB+
Corporate obligations	3,205,608	BBB
Corporate obligations	1,735,849	BBB-
Corporate obligations	532,464	Not Available
Investment loans	31,374,051	Not Rated
Mortgage and asset-backed securities	5,247,919	AAA
Mortgage and asset-backed securities	19,639,538	AA+
Mortgage and asset-backed securities	521,661	A-
Mortgage and asset-backed securities	4,359,548	Not Available
Commingled and mutual funds	385,943,985	Not Rated
	<u>\$ 470,551,610</u>	
Total		

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

NOTES TO FINANCIAL STATEMENTS  
 Year Ended September 30, 2016

5. Investments (continued)

Moody's Investor Services Credit Ratings:

	<u>Fair Value</u>	<u>Credit Ratings</u>
Corporate obligations	\$ 646,059	Aaa
Corporate obligations	385,265	Aa1
Corporate obligations	657,124	Aa2
Corporate obligations	2,060,491	A1
Corporate obligations	1,862,524	A2
Corporate obligations	3,851,172	A3
Corporate obligations	8,247,144	Baa1
Corporate obligations	3,535,700	Baa2
Corporate obligations	2,166,539	Baa3
Corporate obligations	52,890	Not Available
Investment loans	31,374,051	Not Rated
Mortgage and asset-backed securities	25,895,814	Aaa
Mortgage and asset-backed securities	2,688,315	Not Available
Mortgage and asset-backed securities	1,184,537	Not Rated
Commingled and mutual funds	385,943,985	Not Available
Total	<u>\$ 470,551,610</u>	

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

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2016*

**5. Investments (continued)**

Cash and cash equivalents and other investments at September 30, 2016 include the following:

	<u>Fair Value</u>	<u>Credit Ratings</u>	
		<u>Standard &amp; Poor</u>	<u>Moody's</u>
Cash and cash equivalents	\$ 43,231,140	Not Rated	Not Rated
Common stock - U.S.	143,554,443	Not Rated	Not Rated
Real estate investment trust	2,725,794	Not Rated	Not Available
U.S. government & agency obligations	1,074,663	AA+	Aaa
U.S. Treasury bonds	5,885,457	Not Available	Aaa
U.S. Treasury notes	8,491,469	Not Available	Aaa
Municipal bonds	870,400	AAA	Aaa
Municipal bonds	336,705	AA+	Aa1
Municipal bonds	568,541	AA	Aa2
Municipal bonds	543,886	A	Aa3
Limited partnership	40,178,846	Not Rated	Not Rated
Total cash, cash equivalents and other investments	<u>\$ 247,461,344</u>		

The total System's cash, cash equivalents and investment securities at September 30, 2016 consists of:

Fixed income investments	\$ 470,551,610
Cash, cash equivalents, and other Investments	<u>247,461,344</u>
	<u>\$ 718,012,954</u>
Cash and cash equivalents	\$ 43,231,140
Investments, at fair value	<u>674,781,814</u>
	<u>\$ 718,012,954</u>

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

NOTES TO FINANCIAL STATEMENTS  
Year Ended September 30, 2016

5. Investments (continued)

(i) Interest Rate Risk

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

As of September 30, 2016, the System had the following investments and maturities:

Investment Type	Fair Value	Maturity (in years)				
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years	No Stated Maturity Date
U.S. government and agency obligations	\$ 1,074,663	\$ -	\$ 601,456	\$ 473,207	\$ -	\$ -
U.S. Treasury notes	8,491,469	3,535,872	3,418,757	1,536,840	-	-
U.S. Treasury bonds	5,885,457	-	1,875,937	-	4,009,520	-
Municipals bonds	2,319,532	-	133,689	336,705	1,849,138	-
Commingled mutual funds	385,943,985	-	-	-	-	385,943,985
Corporate obligations	23,464,908	368,095	7,136,654	8,023,885	7,936,274	-
Mortgage and asset-backed securities	29,768,666	-	4,150,705	2,025,867	23,592,094	-
Investment Loans	31,374,051	15,000,168	-	16,373,883	-	-
Totals	<u>\$488,322,731</u>	<u>\$18,904,135</u>	<u>\$17,317,198</u>	<u>\$28,770,387</u>	<u>\$37,387,026</u>	<u>\$385,943,985</u>

(j) Custodial Credit Risk - Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. With the exception of underlying securities on loans secured by noncash collateral, the System's entire investment portfolio was held with a single third-party custodian in the System's name as of September 30, 2016. At September 30, 2016, the System had no underlying securities on loan secured by noncash collateral.

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

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

---

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2016*

**5. Investments (continued)**

**(k) Forward Currency Exchange Contracts**

The System enters into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates and to facilitate the settlement of foreign security transactions. A forward contract is an agreement to buy or sell a specific amount of currency at a specific delivery or maturity date for an agreed upon price. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contracts. Changes in the market value of open and closed forward contracts are recorded within interest, dividends, and other income in the statement of changes in plan net position. During the year ended September 30, 2016, the System did not engage in any forward currency exchange contracts

**(l) Fair Value Measurements**

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the System is required to classify certain assets and liabilities based on the following fair value hierarchy:

- *Level 1:* Quoted prices (unadjusted) for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

These levels are determined by the System's investment staff. These are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in the funds. The System will request the information from the fund manager if necessary.

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

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2016*

**5. Investments (continued)**

The System had the following recurring fair value measurements as of September 30, 2016:

	<u>9/30/2016</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
<b>Investments by fair value level</b>				
<b>Debt securities</b>				
Government agency obligations	\$ 15,451,589	\$ -	\$ 15,451,589	\$ -
Municipal obligations	2,319,532	-	2,319,532	-
Corporate bond	23,464,908	-	23,464,868	40
Asset-backed securities	5,265,988	-	5,265,988	-
Collateralized mortgage obligations	436,484	-	436,484	-
Commercial mortgage-backed securities	5,643,395	-	5,643,395	-
Residential mortgage-backed securities	18,422,798	-	18,422,798	-
<b>Total debt securities</b>	<b>71,004,694</b>	<b>-</b>	<b>71,004,654</b>	<b>40</b>
<b>Equity securities</b>				
Consumer goods	27,470,832	27,470,832	-	-
Energy	5,744,614	5,744,614	-	-
Financials	26,145,432	26,145,432	-	-
Health care	20,527,838	20,527,838	-	-
Industrials	24,714,621	24,714,621	-	-
Information technology	28,098,020	28,098,020	-	-
Materials	4,685,176	4,685,176	-	-
Real estate/construction	3,135,644	3,135,644	-	-
Telecommunication services	3,161,226	3,161,226	-	-
Utilities	2,596,834	2,596,834	-	-
<b>Total equity securities</b>	<b>146,280,237</b>	<b>146,280,237</b>	<b>-</b>	<b>-</b>
<b>Limited partnerships</b>				
Senior life settlement	21,123,190	-	-	21,123,190
Private equity-fund of funds	19,055,657	-	-	19,055,657
<b>Total limited partnerships</b>	<b>40,178,847</b>	<b>-</b>	<b>-</b>	<b>40,178,847</b>
<b>Other investments</b>				
Private debt/direct lending	159,594,730	-	-	159,594,730
Real estate/other real assets	72,268,699	-	-	72,268,699
<b>Total other investments</b>	<b>231,863,429</b>	<b>-</b>	<b>-</b>	<b>231,863,429</b>
<b>Total investments by fair value level</b>	<b>489,327,207</b>	<b>\$ 146,280,237</b>	<b>\$ 71,004,654</b>	<b>\$ 272,042,316</b>
<b>Investments measured at net asset value (NAV)</b>				
Commingled equity funds	215,296,067			
Commingled bond funds	170,647,918			
Securities lending collateral fund	24,032,083			
<b>Total investments measured at the NAV</b>	<b>409,976,068</b>			
Short-term investments	43,231,140			
<b>Total investments measured at fair value</b>	<b>\$ 942,534,415</b>			

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below:

<b>Investments measured at net asset value (NAV)</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Commingled equity funds	\$ 215,296,067	\$ -	Daily, Semi-Monthly	1 - 15 days
Commingled bond funds	170,647,918	-	Daily	2 - 10 days
Securities lending collateral fund	24,032,083	-	Daily	None
<b>Total investments measured at the NAV</b>	<b>\$ 409,976,068</b>	<b>\$ -</b>		

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

---

**NOTES TO FINANCIAL STATEMENTS**

*Year Ended September 30, 2016*

**5. Investments (continued)**

*Commingled equity and bond funds.* This type includes nine commingled funds that invest in publicly traded domestic & global stocks, and domestic & global fixed income securities. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments. Of the total commingled funds, \$321,527,034 of the assets can be liquidated on a daily basis and \$64,416,951 can be liquidated on a semi-monthly basis with 8-15 days' notice. All of the underlying securities within the commingled funds carry a recurring fair value measurement level of 1 or 2. There are no unfunded commitments to commingled funds at September 30, 2016.

*Securities lending collateral.* The System's custodian is the agent in lending the System's securities for collateral and investments are in a commingled fund.

GASB Statement No. 72, *Fair Value Measurement and Application*, was implemented for the year ended September 30, 2016; accordingly, fair value information for the prior year is not readily available.

**(m) Member Loans**

Mortgage loans to members or retirees of the System for initial construction phases of a home, for purchase of a home, or for capital improvements of a home;

Chattel mortgages to members or retirees of the System for the purchase of new automobiles, which may not exceed \$18,000;

Personal loans to active members and those members, who have retired and are entitled to annuities, provided such loans do not exceed \$50,000 for both active members and retirees. Effective March 25, 2014, the policy changed to allow retirees to refinance their loans regardless of the outstanding balance;

Loans to active members or retirees of the System solely for the purchase of land

The System's investments in member loans, net of allowances for loan losses, at September 30, 2016 were \$127,699,551. Such investments in member loans generated interest income of \$11,079,521 for the year ended September 30, 2016. The average interest rate was 8% for the year ended September 2016.

The loan program was suspended in August 2015.

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

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2016

### 5. Investments (continued)

#### (c) Real Estate

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

The investment in Carambola NW-LLC d/b/a Renaissance St. Croix Carambola Beach Resort and Spa appraised value is \$8,000,000 for the year ended September 30, 2016.

The System's appraised value of land is \$7,627,158 for the year ended September 30, 2016.

Rental Income net of related expenses generated a net loss of \$1,073,346 for the year ended September 30, 2016.

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

The investment in the System Facilities --- St. Thomas/St. Croix as of September 30, 2016 is as follows:

	<u>2016</u>
Land	\$ 7,627,158
Building, improvements, and fixtures	<u>21,132,280</u>
	28,759,438
Less: accumulated depreciation and amortization	<u>5,490,739</u>
Totals	<u>\$ 23,268,699</u>

### 6. Securities Lending Transactions

The Government's statutes permit the System to participate in securities lending transactions, and the System has, via a securities lending authorization agreement (the agreement), authorized State Street Bank and Trust Company (the custodian) to lend securities to broker-dealers and banks pursuant to a form of loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. The System does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2016 as to the amount of loans the custodian can make on behalf of the System.



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

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2016*

**6. 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, 2016, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. Under the terms of the agreement, the custodian must indemnify the System for losses attributable to violations by the custodian under the "Standard of Care" clause described in the agreement. There were no such violations during the fiscal year 2016, 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, 2016, such investment pool had a weighted average maturity and average expected maturity of 39 days and 78 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, 2016, the fair value of securities on loan amounted to \$31,422,215, 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 \$31,847,181 including \$24,032,083 of cash, as of September 30, 2016. Investments made with cash collateral are reported as an asset of the System with a corresponding liability in the accompanying statement of fiduciary net position.

The following represents the balances relating to the securities lending transactions as of September 30, 2016:

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Cash Collateral Investment Value</u>	<u>Securities Collateral Investment Value</u>
Lent for Cash Collateral:			
Corporate bonds	\$ 505,599	\$ 516,455	\$ -
Common and preferred stocks	23,288,732	23,515,628	-
Lent for Securities Collateral:			
U.S. government and agency obligations	2,827,143	-	2,915,564
Corporate bonds	243,268	-	248,843
Common and preferred stocks	4,557,473	-	4,650,691
Totals	<u>\$ 31,422,215</u>	<u>\$ 24,032,083</u>	<u>\$ 7,815,098</u>

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

**NOTES TO FINANCIAL STATEMENTS**  
*Year Ended September 30, 2016*

**7. Reserved Assets**

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

Reserved assets consist of the following:

	<u>2016</u>
Cash	\$ 26,162
Certificates of deposit	4,076
Totals	<u>\$ 30,238</u>

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

At September 30, 2016, the amount recorded as due from Agencies of the Government of the U.S. Virgin Islands was \$13,566,176. Included in the amount due from Agencies of the Government of the U.S. Virgin Islands is an estimated material amount owed by one Agency.

**9. Internal Revenue Matching Fund**

On December 19, 2013 Pursuant to Act No. 7261 Section 13 (Bill No. 29-0123) and enabling legislation, the System should have received \$7,000,000 per year from the Internal Revenue Matching Fund. In 2016 the System received \$7,000,000 which was applied as Employer Contribution.

**10. 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.

**11. 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.

**12. Management Fees and Custodian Fees**

The custodian and investment advisers of the System's investment fund are entitled to annual fees computed on the basis of the market value of the System's investment fund assets and reimbursement of out-of-pocket expenses incidental to custodial duties. Such fees amounted to \$2,664,722 for the year ended September 30, 2016.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

*September 30, 2015*

Historical trend information about the Employees' Retirement System (System) defined benefit pension plan is presented below as required supplementary information. This information is intended to help users assess the System' funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

**EXHIBIT 1**

**SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS**

<b>Fiscal Year Ended September 30:</b>	<b>2015</b>	<b>2014</b>
<b>Total Pension Liability</b>		
Service Cost	\$ 69,262,969	\$ 65,274,936
Interest on the Total Pension Liability	184,451,782	191,113,749
Benefit Changes	-	(40,421,809)
Differences between Actual and Expected Experience	98,193,233	35,917,905
Changes of Assumptions	731,994,972	241,527,329
Benefit Payments and Refunds	(250,110,255)	(247,069,503)
<b>Net Change in Total Pension Liability</b>	<b>833,792,701</b>	<b>246,342,607</b>
<b>Total Pension Liability – Beginning</b>	<b>4,228,909,387</b>	<b>3,982,566,780</b>
<b>Total Pension Liability – Ending (a)</b>	<b>\$5,062,702,088</b>	<b>\$4,228,909,387</b>
<b>Plan Fiduciary Net Position</b>		
Contributions – Employer	\$ 72,287,934	\$ 68,298,617
Contributions – Member	36,245,015	34,020,107
Net Investment Income	(4,932,398)	60,326,921
Benefit Payments and Refunds	(250,110,255)	(247,069,503)
Administrative Expense	(16,401,722)	(18,867,491)
Other	1,161,302	3,573,611
<b>Net Change In Plan Fiduciary Net Position</b>	<b>(161,750,124)</b>	<b>(99,717,738)</b>
<b>Plan Fiduciary Net Position – Beginning</b>	<b>1,152,791,375</b>	<b>1,252,509,113</b>
<b>Plan Fiduciary Net Position – Ending (B)</b>	<b>991,041,251</b>	<b>1,152,791,375</b>
<b>Net Pension Liability – Ending (A) – (B)</b>	<b>\$4,071,660,837</b>	<b>\$3,076,118,012</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Covered Employee Payroll</b>	<b>19.58%</b>	<b>27.03%</b>
<b>Covered Employee Payroll</b>	<b>\$368,023,518*</b>	<b>\$355,603,633*</b>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<b>1,106.36%</b>	<b>865.04%</b>

*\*Covered employee payroll as reported in the participant data as of each valuation date.*

*Historical information prior to implementation of GASB 67/68 is not required*

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

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

---

**REQUIRED SUPPLEMENTARY INFORMATION**  
*September 30, 2015*

---

**EXHIBIT 2**

**NOTES TO SCHEDULE**

---

*Benefit Changes:* There have been no benefit changes since September 20, 2013.

*Change of Assumptions:* In the ended September 30, 2014, amounts reported as changes in assumptions resulted from a decreased in the discount rate used to measure the total pension liability from 4.87% as of September 30, 2013 to 4.42% as of September 30, 2014.

In the year ended September 30, 2015, amounts reported as changes in assumptions resulted from a decrease in the discount rate used to measure the total pension liability from 4.42% as of September 30, 2014 to 3.84% as of September 30, 2015 and several changes in assumptions based on the actuarial experience study as of September 30, 2015 adopted by the Board effective September 30, 2015. The changes include changes to the long-term expected rate of return, salary scale, inflation, the mortality assumption for healthy and disabled lives including the provision for future mortality improvement, retirement ages for active members and pre-retirement decrement rates for turnover and disability.

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

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT 3

SCHEDULE OF EMPLOYER CONTRIBUTIONS – LAST TEN FISCAL YEARS

<b>Fiscal Year Ended September 30</b>	<b>Actuarially Determined Contributions</b>	<b>Actual Contributions</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Percentage Contributed</b>
2006*	\$131,059,471	\$65,061,430	\$65,998,041	\$355,462,276	18.30%
2007	137,797,268	60,778,382	77,018,886	394,595,844	15.40%
2008*	138,488,871	75,871,146	62,617,725	419,161,255	18.10%
2009*	147,490,851	80,177,004	67,313,847	433,549,406	18.49%
2010*	157,817,709	77,004,630	80,813,079	458,154,309	16.81%
2011*	162,841,336	80,849,762	81,991,574	440,026,457	18.37%
2012	178,644,349	66,677,155	111,967,194	403,473,988	16.53%
2013*	172,439,842	64,431,322	108,008,520	381,012,309	16.91%
2014	189,715,251	68,298,617	121,416,634	370,131,865	18.45%
2015	200,089,791	72,287,934	127,801,857	355,603,633	20.33%

\*Estimated based on prior year's actuarial valuation

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

---

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

---

**EXHIBIT 4**

**NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS**

---

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