EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2007

BERT SMITH & Co.

In association with

FRANCISCO E. DEPUSOIR

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

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BERT SMITH & Co.

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, 2007, 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 2006 financial statement, and in our report dated January 18, 2008, 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 explained in note 4, the financial statements include investments in a limited partnership valued at $51,000,000. The System's estimate is based on information provided by the general partner of the limited partnership in the prior fiscal year 2006. Management has chosen to maintain its investment balance from the prior year due to its uncertainty of the recoverability of its investment.

The System did not maintain the requisite documentation to support the cash overdraft balance with the Government of the United States Virgin Islands Department of Finance stated at $10,454,451 at September 30, 2007. The System has been unable to reconcile its cash overdraft recorded in its books with the cash accounts maintained by the Department of Finance. As a result, we were not able to obtain sufficient audit evidence to determine whether adjustments to the financial statement balance of the cash overdraft with the Department of Finance are required.

The real estate investment in the System Complex reflected at $19,853,966 as of September 30, 2007 is based on historical costs. A portion of the real estate investment is leased to other government agencies and commercial tenants, and in accordance with Governmental Accounting Standards Board (GASB) No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* requires that the leased portion of the investment be presented at fair value. A valuation of this real estate investment was not performed in fiscal year 2007. The effects of this departure from accounting principles generally accepted in the United States of America on the System's financial statements and the supplementary schedules have not been determined.

In our opinion, except for:

- the effects of such adjustments, if any, as might have been determined to be necessary, if the scope of our audit had not been limited by our inability to satisfy ourselves as to the fair value of the limited partnership investment,

- the effects of such adjustments, if any, as might have been determined to be necessary, if the scope of our audit had not been limited by our inability to obtain satisfactory evidence with respect to the cash overdraft with the Department of Finance,

- the effects of not having performed a valuation in fiscal year 2007 of the real estate investment in the System complex related to the portion of the building held for lease, and not carrying such investment at fair value, and

The financial statements referred to in the first paragraph above present fairly, in all material respects, the plan net assets of the Employees' Retirement System of the Government of the Virgin Islands as of September 30, 2007, the changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 13 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 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 33 through 34 are not a required part of the basic financial statements, but are 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 supplementary information. However, we did not audit and do not express an opinion it. As a result of such limited procedures, we believe that the schedules of funding progress and employer contributions are not in conformity with accounting principles generally accepted in the United States because an actuarial valuation was not performed within the required two year period.

Bert Smith & Co

November 25, 2008

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

Management's Discussion and Analysis

September 30, 2007

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.

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 and a summary of actuarial assumptions and methods are also presented and are useful in evaluating the condition of the plans.

FINANCIAL ANALYSIS OF THE SYSTEM AS A WHOLE

Comparison of 2007 and 2006 Assets, Liabilities, and Net Assets

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

Net Assets	2007	2006	Increase (decrease)	Percentage
Investments	$ 1,312,363	$ 1,193,362	$ 119,001	10%
Foreign currency exchange contracts	-	184	(184)	(100%)
Member loans, net	118,105	112,557	5,548	5%
Real estate, net	99,854	79,074	20,780	26%
Other assets	416,269	400,781	15,488	4%
Total assets	1,946,591	1,785,958	160,633	9%
Total liabilities	339,222	308,480	30,742	10%
Total net assets	$ 1,607,369	$ 1,477,478	$ 129,891	9%

At September 30, 2007 and 2006, the System's total assets were $1.947 billion and $1.786 billion, respectively. This increase in total assets resulted mainly from the net effect of the following:

- Investments, specifically marketable securities, increased $119 million, which represented a 10% increase over September 30, 2006. Both the domestic and international equity segments have been major contributors to the increased performance of the Fund. For the year ended September 30, 2007 the total return on the investment portfolio amounted to 14.5%

  The System is restricted by asset allocation mandates which require maintaining 60% of its investment portfolio in equity stocks. Thus, the value of the equity portfolio of the System like that of other investors was heavily impacted by the general favorable conditions reflected in the market during fiscal year 2007 and 2006.

- The members' loans increased $5.5 million to approximately $118.1 million as of September 30, 2007 from approximately $112.6 million as of September 30, 2006. The 5% increase was attributable primarily to the increased personal loans granted during the year. The allowance for losses remained at the same level as in 2006.

The real estate net increased approximately $20.8 million due mainly to implementation of GASB No. 25, "*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*" for the Havensight Mall property. The standard requires that such an investment be presented at fair value resulting in an increase of approximately $19.5 million. The additional $1.3 million increase was due to additions made during the fiscal year 2007 net of depreciation expense of $109 thousand.

Total other assets increased by approximately $15.5 million as a result of the net effect of the following:

- The invested securities lending collateral increased to approximately $304.5 million as of September 30, 2007 from approximately $271.2 million as of September 30, 2006. This increase was offset by an increase from the same amount ($33.3 million) in the liabilities section (securities lending collateral). These securities lending transactions pay a predetermined interest rate with significant covenant protecting the lender to exposure to loss. The increase in the type of investment results from gains in the stock market as the System invested in higher-yielding equity investments to benefit from the effect of the general favorable conditions shown by the capital markets.

- The cash and cash equivalents decreased to approximately $59 million as of September 30, 2007 from approximately $83.4 million as of September 30, 2006. The cash and cash equivalents are segregated as follows (dollar amounts in thousands):

	2007	2006	Increase (decrease)
Cash in money market accounts	$ 35,043	$ 79,992	$ (44,949)
Cash in operational accounts	23,988	3,439	20,549
Total cash and cash equivalents	$ 59,031	$ 83,431	$ (24,400)

  Total decrease in money market accounts of approximately $44.9 million is in part attributable to the offsetting increase in marketable securities. The System's investment managers took the opportunity to capitalize on the relative out performance in the domestic equity stocks. In addition the System is required by mandate to limit cash and cash equivalents to no more than 5% of the total portfolio. The increase in the cash operational accounts of approximately $20.5 million is due to the need for increased draw downs from the investments in marketable securities to fund the current operating deficiency.

  The unsettled securities sold increased $3.6 million to approximately $8.2 million as of September 30, 2007 from approximately $4.6 million as of September 30, 2006.

At September 30, 2007, the System's total liabilities were $339.2 million compared with $308.5 million at September 30, 2006.

- The cash overdraft with bank of approximately $3.5 million as of September 30, 2006 was eliminated as of September 30, 2007.

- The line of credit with financial institution decreased by $687 thousand when compared to prior year. On October 2, 2006, the System entered into a loan agreement with a financial institution to provide working capital to the System for its corporate purposes. This line of credit is a revolving line of credit in the aggregate maximum principal amount of $25 million. The decrease reflects periodic payments made.

- Securities lending transactions increased by approximately $33.3 million when compared to prior year.

- The unsettled securities purchased increased $548 thousand to approximately $7.9 million as of September 30, 2007 from approximately $7.4 million as of September 30, 2006.

Comparison of 2007 and 2006 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	2007	2006	Increase (decrease)	Percentage
Net appreciation in fair value of investments	$ 140,273	$ 62,705	$ 77,568	124%
Net appreciation in fair value of real estate	19,487	-	19,487	100%
Interest, dividends, and other	58,069	56,072	1,997	4%
Rental income, net	4,621	3,645	976	27%
Less investment management fees and custodian fees, borrowers' rebates and other agent fees on securities lending transactions, and other expenses	20,718	18,118	2,600	14%
Total investment income	201,732	104,304	97,428	93%
Total contribution income	96,547	99,271	(2,724)	(3%)
Other income	2,091	263	1,828	695%
Total additions	300,370	203,838	96,532	47%
Benefits paid directly to members	158,871	147,801	11,070	7%
Refunds of members' contributions	1,768	2,935	(1,167)	(40%)
Administrative and operational expenses	9,839	10,258	(419)	(4%)
Total deductions	170,478	160,994	9,484	6%
Net increases	$ 129,892	$ 42,844	$ 87,048	203%

For the year ended September 30, 2007, operations resulted in a net increase of $129.9 million when compared to the net increase of $42.8 million for the year ended September 30, 2006. This fluctuation in net increase 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, 2007 increased $77.6 million to $140.3 million, reflecting a 124% increase over the $62.7 million appreciation reported for the year ended September 30, 2006. The increase in net appreciation was concentrated in the System's U.S. domestic equity portfolios. Stocks in the sectors of finance, energy, basic materials and healthcare performed well for the System in Fiscal Year 2007.

For fiscal year ended September 30, 2008 the System generated negative absolute returns due to the corrosive effects of the U. S. economic downturn. The net depreciation in fair value over September 30, 2007 gains approximates $271 million. In fact, the month of September 2008 proved to be a period of historic negative returns worldwide. The System's portfolio, like the domestic and international markets, was significantly impacted by the fallout from the major financial institutions placed in conservatorship, the largest bank failure in history, major financial institutions converted to commercial banks and now under the control of the U. S. Government and the several other unprecedented events causing credit and liquidity crises in the financial sector and havoc on the capital markets.

Nonetheless, the System is a long-term investor and manages the pension fund with long-term objectives in mind. The primary investment philosophy of the System is diversification among various asset classes, which is the best way to achieve its long-term goal. GERS management along with its Board of Trustees, under advisement from its financial advisers, will continue to review all investment programs and monitor the investment managers that are responsible for investing the assets. The present fluctuations of the financial markets are reflective of the 1970s, 1980s and 1990s from which the System rebounded because of its investment diversification and long-term asset allocations. This same recovery is expected going forward.

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

The net appreciation in fair value represents the increase in fair value of the Havensight Mall property, the recognition of which is consistent with the implementation of GASB No. 25.

- **Interest, Dividends, and Other**

Total interest, dividends, and other increased to approximately $58.1 million for the year ended September 30, 2007 from approximately $56.1 million for the year ended September 30, 2006. The increase of $2.0 million in interest, dividends, and other was due primarily to the net combination of the following factors. Interest income increased to $21.6 million for fiscal year ended September 30, 2007 from $18.4 million for fiscal year ended September 30, 2006. This gain of $3.2 million was due to periodic interest hikes throughout the year. The offsetting decrease was of $1.5 million was attributable primarily to payables on forward exchange contracts.

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

These investment and other fees increased to approximately $20.7 million for the year ended September 30, 2007 from approximately $18.1 million for the year ended September 30, 2006. The increase of $2.6 million is primarily due to increased rebates and other agent fees on securities lending transactions.

- **Contribution Income**

Total contribution income decreased by approximately 3% or $2.7 million to $96.5 million in fiscal year 2007 from $99.3 million in fiscal year 2006. During 2006, the System received payments in the amount of approximately $7 million for past monies due from the Government of the United States Virgin Islands for employee and employer contributions pursuant to the Early Retirement Act of

1994. The System did not record receivables related to these monies during the years that they were earned. Negating such monies received in 2006, the System saw an increase in contribution income of approximately $4.3 million in 2007

- Other Income

Other Income increased to $2.1 million dollars for fiscal year ended September 30, 2007 from approximately $263 thousand in fiscal year ended September 30, 2006. This $1.9 million increase included $1.5 million received for payment of a cost of living bonus to retirees, or their beneficiaries, who retired prior to 1990. The additional $400 thousand represent primarily penalty fees on late rental payments and other miscellaneous fees.

- **Benefits Paid Directly to Members**

Benefits paid directly to members increased to approximately $158.9 million for the year ended September 30, 2007 from approximately $147.8 million for the year ended September 30, 2006 due to the increase in the overall number of retirees receiving benefits through the annuity payroll registers; a cost of living adjustment of 1.5% and 1% provided to retired and disabled beneficiaries, respectively; and a $1.5 million bonus paid to beneficiaries who retired prior to 1990.

- **Administrative and Operational Expenses**

Administrative and operational expenses decreased $419 thousand to approximately $9.8 million for the year ended September 30, 2007 from $10.3 million for the year ended September 30, 2006. The decrease was mainly due to reductions in various service fees and salaries and wages.

Comparison of 2006 and 2005 Assets, Liabilities, and Net Assets

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

Net Assets	2006	2005	Increase (decrease)	Percentage
Investments	$ 1,193,362	$ 1,195,980	$ (2,618)	(<1%)
Foreign currency exchange contracts	184	-	184	100%
Member loans, net	112,557	111,434	1,123	1%
Real estate, net	79,074	73,363	5,711	8%
Other assets	400,781	343,105	57,676	17%
Total assets	1,785,958	1,723,882	62,076	4%
Total liabilities	308,480	289,249	19,231	7%
Total net assets	$ 1,477,478	$ 1,434,633	$ 42,845	3%

At September 30, 2006 and 2005, the System's total assets were $1.786 billion and $1.724 billion, respectively. This increase in total assets resulted mainly from the net effect of the following:

- Investments decreased by approximately $2.6 million, reflecting the withdrawals needed to supplement retiree payroll and other operations offset by the appreciation from investment assets. For the year ended September 30, 2006, the total return of the investment portfolio amounted to 7.8%. This is a direct result of favorable performances among the portfolio such as the international equity, domestic equity, and cash returns.

  The System is restricted by asset allocation mandates which require it to maintain 60% of its investment portfolio in equity stocks. Thus, the value of the equity portfolio of the System like other investors was heavily impacted by the general favorable conditions shown by the market during fiscal year 2006 and 2005.

- The members' loans increased to approximately $112.6 million as of September 30, 2006 from approximately $111.4 million as of September 30, 2005. The main reason for this increase was the combination of new loans granted during the year, the principal collected on loans and the System's efforts to improve the overall quality of the loans portfolio. The allowance for losses remained at the same level as in 2005.

- The real estate, net increased by approximately $5.71 million due to additions made during the year 2006, which amounted to approximately $5.8 million and depreciation expense of $96 thousand.

- Total other assets increased by approximately $57.7 million as a result of the net effect of the following:

  - The invested securities lending collateral increased to approximately $271.2 million as of September 30, 2006 from approximately $221.8 million as of September 30, 2005. This increase was offset by an increase from the same amount ($49.3 million) in the liabilities section (securities lending collateral). These securities lending transactions pay a predetermined interest rate with significant covenant protecting the lender to exposure to loss. The increase in the type of investment results from gains in the stock market as the System invested in higher-yielding equity investments to benefit from the effect of the general favorable conditions shown by the capital markets.

- The cash and cash equivalents decreased to approximately $83.4 million as of September 30, 2006 from approximately $86.9 million as of September 30, 2005. The cash and cash equivalents are segregated as follows (dollar amounts in thousands):

	2006	2005	Increase (decrease)
Cash in money market accounts	$ 79,992	$ 78,952	$ 1,040
Cash in operational accounts	3,439	7,940	(4,501)
Total cash and cash equivalents	$ 83,431	$ 86,892	$ (3,461)

Total increase in money market accounts of approximately $1 million is in part due to the increase in marketable securities.

The accrued interest receivable increased to approximately $5.6 million as of September 30, 2006 from approximately $5.1 million as of September 30, 2005.

The unsettled securities sold decreased to approximately $4.6 million as of September 30, 2006 from approximately $9.1 million as of September 30, 2005.

At September 30, 2006, the System's total liabilities were $308.5 million compared with $289.2 at September 30, 2005.

- The cash overdraft with bank increased by approximately $3.1 million when compared to prior year. The cash overdraft with bank was the result of the current operational deficiency, which requires annual transfers out from the investments in marketable securities to the cash in operational accounts.
- The line of credit with financial institution remained unchanged at $10 million when compared to prior year. On December 30, 2002, the System entered into a loan agreement with a financial institution to provide working capital to the System for its corporate purposes. This line of credit is a revolving line of credit in the aggregate maximum principal amount of $10 million.
- Securities lending transactions increased by approximately $49.3 million when compared to prior year.
- The unsettled securities purchased decreased to approximately $7.4 million as of September 30, 2006 from approximately $40.8 million as of September 30, 2005. The decrease was the result of lower volume of securities transactions during the latter part of the fiscal year.

Comparison of 2006 and 2005 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	2006	2005	Increase (decrease)	Percentage
Net appreciation in fair value of investments	$ 62,705	$ 119,001	$ (56,296)	(47%)
Interest, dividends, and other	56,072	45,072	11,000	24%
Rental income, net	3,645	3,469	176	5%
Less investment management fees and custodian fees, borrowers' rebates and other agent fees on securities lending transactions, and other expenses	18,118	12,548	5,570	44%
Total investment income	104,304	154,994	(50,690)	(33%)
Total contribution income	99,271	81,958	17,313	21%
Other income	263	422	(159)	(38%)
Total additions	203,838	237,374	(33,536)	(14%)
Benefits paid directly to members	147,801	141,383	6,418	5%
Refunds of members' contributions	2,935	2,375	560	24%
Administrative and operational expenses	10,258	9,288	970	10%
Total deductions	160,994	153,046	7,948	5%
Net increases	$ 42,844	$ 84,328	$ (41,484)	(49%)

For the year ended September 30, 2006, operations resulted in a net increase of $42.8 million when compared to the net increase of $84.3 million for the year ended September 30, 2005. This fluctuation in net increase resulted from the net effect of the following:

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

  Total net appreciation in fair value of investments decreased to approximately $62.7 million for the year ended September 30, 2006 from approximately a net appreciation of $119 million for the year ended September 30, 2005. The investment portfolio, highly concentrated in stocks, recognized a net unrealized appreciation value in investments of approximately $9.9 million for the fiscal year 2006. The variance in net appreciation was directly related to the unsteadiness in the investment securities market in 2006, which impacted our domestic equity and fixed income investments. Consumer confidence decreased during the course of fiscal year 2006 due in large part to continued geopolitical unrest combined with a slowdown in growth in the economy. The continued decline in homebuilding, weaker inventory spending, higher imports and lower state and local government spending were all factors in the slower growth pace of the U.S. economy. These factors had some effect on the overall investment fund performance, particularly on our large and small cap portfolio. Additionally, concerns about rising gas prices and interest rates contributed to a lower rate of return for the investment fund portfolio. Moreover, the U.S. economy's expanding budget deficit, combined with a spike in the trade deficit, compelled the U.S. dollar to all-time lows against foreign currencies. This occurred albeit moves by the expecting nations like Japan and China to purchase U.S. Treasury securities to slow the dollar's fall.

The realized gain of approximately $52.8 million from marketable securities transactions during the year primarily resulted from investment returns in the equity class of the investment portfolios.

- **Interest, Dividends, and Other**

Total interest, dividends, and other increased to approximately $56 million for the year ended September 30, 2006 from approximately $45 million for the year ended September 30, 2005. This increase in interest, dividends, and other was the combination of several factors. There was an increase in the interest and dividend income generated in the investments in marketable securities to approximately $31.6 million for the year ended September 30, 2006 from approximately $28.7 million for the year ended September 30, 2005. The increase in the interest income generated in the investments in debt securities increased by approximately $2.6 million when compared to the prior year. The increase in the dividends income generated in the investment in equity securities increased by approximately $316 thousand when compared to the prior year. Also there was an increase in other investment income of approximately $7.5 million when compared to the prior year. The increase in the interest income generated in the investments in debt securities was due to an increase in fixed income yield as a result of the increasing interest rate environment. The increase in the dividends income generated in the investment in equity securities was a result of the increase in equity portfolio. The increase in other investment income was mainly the result of an increase in the income generated in the securities lending transactions of approximately $5.6 million when compared to the prior year and the net increase on foreign exchange contracts of approximately $1.3 million when compared to the prior year.

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

These investment and other fees increased to approximately $18.1 million for the year ended September 30, 2006 from approximately $12.5 million for the year ended September 30, 2005. This increase is primarily due to increased rebates and other agent fees on securities lending transactions by approximately $5.6 million.

- **Contribution Income**

Total contribution income increased by approximately 21% or $17.3 million to $99.3 million in 2006 from $82 million in 2005. During 2006, the System received payments in the amount of approximately $7 million as payments for monies due from the Government of the United States Virgin Islands for employee and employer contributions pursuant to the Early Retirement Act of 1994. The remaining increase is due primarily to contributions associated with the 5% retroactive raise per year for fiscal years 2003, 2004, and 2005 paid to certain bargaining units within the central government.

- **Benefits Paid Directly to Members**

  Benefits paid directly to members increased to approximately $148 million for the year ended September 30, 2006 from approximately $141 million for the year ended September 30, 2005 due to the increase in the overall number of retirees receiving benefits through the annuity payroll registers.

- **Administrative and Operational Expenses**

  Administrative and operational expenses increased to $10.3 million for the year ended September 30, 2006 from approximately $9.3 million for the year ended September 30, 2005. This was mainly due to the increase in salaries and fringe benefit expense of approximately $825 thousand, an increase in travel and bank charges of $173 thousand and $224 thousand, respectively and the decrease in insurance costs related participants, personal loans, and mortgages of $690 thousand, which were reclassified to the escrow accounts.

CONTACTING THE SYSTEM'S MANAGEMENT

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

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

Statement of Plan Net Assets

September 30, 2007

(With Comparative Totals for September 30, 2006)

	2007	2006
Assets		
Investments:		
Marketable securities, at fair value:		
U.S. government and agency obligations	$ 125,255,922	$ 139,860,626
Corporate obligations	58,294,024	39,879,698
Foreign bonds and government obligations	78,241,099	69,888,287
Common stock - U.S.	696,871,642	641,596,741
Common stock - foreign	122,870,071	123,337,301
Preferred stock - foreign	1,277,687	1,405,114
Mortgage and asset-backed securities	171,432,680	121,985,218
Mutual funds	3,162,338	3,060,958
Real estate investment trust	3,957,314	1,347,754
	1,261,362,777	1,142,361,697
Limited partnership	51,000,000	51,000,000
	1,312,362,777	1,193,361,697
Foreign currency exchange contract	-	184,000
Member loans:		
Mortgage	14,450,913	16,472,650
Personal	106,449,387	98,759,359
Auto	205,041	325,242
	121,105,341	115,557,251
Less allowance for losses	(3,000,000)	(3,000,000)
	118,105,341	112,557,251
Real estate:		
Havensight Mall	80,000,000	60,512,676
System Complex	19,853,966	18,561,494
	99,853,966	79,074,170
Invested securities lending collateral	304,456,020	271,161,674
Cash and cash equivalents	59,030,897	83,430,739
Interest-bearing deposit with bank	25,770,073	24,667,424
Reserved assets	76,715	51,079
Due from the Department of Finance and outside agencies of the Government of the U.S. Virgin Islands	9,384,928	9,108,399
Accrued interest receivable	5,875,975	5,604,993
Unsettled securities sold	8,215,237	4,605,240
Other	3,459,446	2,151,293
Total Assets	1,946,591,375	1,785,957,959
Liabilities		
Foreign currency exchange contract	1,083,076	-
Cash overdraft with the Department of Finance	10,454,451	10,454,451
Cash overdraft with bank	-	3,532,549
Line of credit with financial institution	9,313,002	10,000,000
Securities lending transactions	304,456,020	271,161,674
Unsettled securities purchased	7,924,346	7,375,886
Other liabilities	5,991,068	5,955,849
Total Liabilities	339,221,963	308,480,409
Plan net assets held in trust for pension benefits	$1,607,369,412	$1,477,477,550

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

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

Statement of Changes in Plan Net Assets

For the Year Ended September 30, 2007

(With Comparative Totals for September 30, 2006)

	2007	2006
Additions:		
Investment income (loss):		
Net appreciation in fair value of investments	$ 140,272,665	$ 62,705,353
Net appreciation in fair value of real estate	19,487,324	-
Interest, dividends, and other	58,068,560	56,071,847
Rental income (loss) - net of related expenses:		
Havensight Mall	3,920,214	3,592,690
System Facilities - St. Thomas/St. Croix	701,002	52,338
	222,449,765	122,422,228
Less:		
Investment management fees and custodian fees	6,084,449	5,484,412
Borrowers' rebates and other agent fees on securities lending transactions	14,118,747	12,111,851
Other expenses	514,683	521,958
	201,731,886	104,304,007
Contributions:		
Employer	60,778,382	65,061,430
Employees	35,769,001	34,209,871
	96,547,383	99,271,301
Other income	2,090,542	263,149
Total additions	300,369,811	203,838,457
Deductions:		
Benefits paid directly to members	158,871,038	147,800,767
Refunds of members' contributions	1,768,207	2,935,510
Administrative and operational expenses	9,838,704	10,257,747
Total deductions	170,477,949	160,994,024
Net increase	129,891,862	42,844,433
Plan net assets held in trust for pension benefits:		
Beginning of year	1,477,477,550	1,434,633,117
End of year	$1,607,369,412	$1,477,477,550

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

NOTE 1: GENERAL DESCRIPTION OF PLAN

The Government of the Virgin Islands Employees' Retirement System (the System) is a cost-sharing, multiple-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, 2007 and 2006:

	2007	2006
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	6,811	6,731
Current employees	11,207	9,841
	18,018	16,572

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 can 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 completed six years of credited service or earned at least six 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 is determined by averaging the three highest years of salary the member earned within the last 10 years of 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 annuity payment to retirees 60 years or older increases by 1.5% of the original annuity amount on July 1 of each year after the first year of payments.

The administrator of the System manages the business of the System and is responsible for its proper operation, subject to the orders, 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, provided such person is under age 55 on the date of appointment. Membership contributions begin after completing 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, 2003 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 law.

The Government's required contribution is 14.5% of the members' annual salary and required member contributions are 8% of annual salary for regular employees, 9% for senators, 11% for judges, and 10% for Act 5226 eligible employees. Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective June 29, 2000, legislation was passed that provided for 4% annual interest on refunded contributions.

- **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, this amount was $26,666,590 and $26,278,945 as of September 30, 2007 and 2006, respectively, of which a total of $26,390,733 and $25,886,163 had been received by the System since the year ended September 30, 1998, respectively.

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 of obtaining 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 to buy 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 loans bear interest at 9.75% with a maximum term of five years. A member may also borrow up to 75% of their contributions to the System to a maximum borrowing of $50,000 as a personal loan. The interest rate offered on personal loans was 8.5% throughout the year.

- **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.

NOTE 2: SUMMARY OF ACCOUNTING POLICIES

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

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 approximates fair value. Investments in limited partnership have no readily ascertainable market value and are based on the valuation reported by the general partner.

Investment in the Havensight Mall real estate is estimated based on an independent appraisal.

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 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 valued 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.

Comparative Totals **-** The financial statements include certain prior-year 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, 2006, from which the summarized information was derived.

NOTE 3: CASH AND CASH EQUIVALENTS

The cash and cash equivalents are segregated as follows:

	2007	2006
Cash in money market accounts	$ 35,043,245	$ 79,991,569
Cash in operational accounts	23,987,652	3,439,170
Total cash and cash equivalents	$ 59,030,897	$ 83,430,739

NOTE 4: INVESTMENTS

(a) Marketable Securities

The System's investments in marketable securities are held in trust by a commercial bank on behalf of the System and are administered by several professional investment managers. The System's board of trustees has established investment policies that place limitation and provide guidelines on amounts that may be invested in certain investment categories. In addition, such policies provide the requisites in the institutions with which investment transactions 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 know security rating agencies. Not more than 2% of total investments should consist of any one issue of these bonds;

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

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

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

- 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 and that the recipient has no other outstanding personal loan from the System.

- 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.

- 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.

- Mortgage and asset-backed securities.

(b) Limited Partnership

The System is authorized to invest in life settlement policy contract investments provided:

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

- The face value of any single policy investment by the System does not exceed the greater of $5,000,000 or 2% of the aggregate face value of policy investments by the System.

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

On August 15, 2006, the System invested $50,000,000 in a 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 fair value of the limited partnership investment of $51,000,000 is based on the valuation reported by the Fund's general manager. Senior life settlement contracts do not have active trading markets in which fair value can be easily determined. The Fund is a newly established fund and does not have historical evaluation data.

The fair value of the limited partnership investment of $51,000,000 was based on the valuation reported by the Fund's general manager at September 30, 2006. The valuations provided by the Fund's general manager as of September 30, 2007 and October 1, 2007 were $59,059,380 and $54,008,810, respectively. This reflected a decrease in value of approximately $5 million within one day, resulting in the System's uncertainty of the investment's value at year end. Retaining the value at September 30, 2007 at the same value as Fiscal Year 2006 level is the conservative stance. In addition, events subsequent to the Fiscal Year Ended 2007 covered under Footnote 7 further supports the conservative position taken. Senior life settlement contracts do not have active trading markets in which fair value can be easily determined.

The fair value of the System's investments in marketable securities at September 30, 2007 and 2006 amounted to $1,312,362,777 and $1,193,361,697, respectively. The investments in marketable securities generated interest and dividend income of $34,822,932 and $31,609,139 for the years ended September 2007 and 2006, 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 $140,272,665 and $62,705,353, respectively, as follows:

	2007	2006
U.S. government and agency obligations	$ 2,582,998	$ (516,721)
Corporate obligations	1,584,692	(44,639)
Foreign bonds and government obligations	4,181,298	550,633
Common stock - U.S.	109,593,362	38,340,511
Common and preferred stock - foreign	23,181,312	22,684,130
Mortgage and asset-backed securities	(1,043,774)	(1,554,160)
Mutual funds	472,281	2,308,824
Real Estate Investment Trust	(320,725)	(63,225)
Limited partnership	41,221	1,000,000
Totals	$140,272,665	$ 62,705,353

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 S & P 500 Index.

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 depository 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, 2007 and 2006, all cash and cash equivalents were covered by federal deposit insurance, corporate surety bonds, or by collateral held by the System.

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. The investment policy provides that a minimum of 60% of its investment portfolio be invested in equity stocks and a minimum of 40% of its investment portfolio be invested in fixed income.

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

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, 2007 include the following:

Standard & Poor's Credit Ratings:

	Fair value	Credit Ratings
Mortgage and asset-backed securities	$ 1,823,814	Not rated
Mortgage and asset-backed securities	782,798	A-
Mortgage and asset-backed securities	181,972	A+
Mortgage and asset-backed securities	420,686	AA+
Mortgage and asset-backed securities	158,401,632	AAA
Mortgage and asset-backed securities	9,821,778	Not available
Corporate obligations	1,838,393	Not rated
Corporate obligations	5,512,650	A
Corporate obligations	6,104,289	A-
Corporate obligations	6,515,391	A+
Corporate obligations	3,120,117	AA
Corporate obligations	7,283,982	AA-
Corporate obligations	201,195	AA+
Corporate obligations	3,554,418	AAA
Corporate obligations	1,366,966	BB+
Corporate obligations	6,380,359	BBB
Corporate obligations	6,340,455	BBB-
Corporate obligations	6,871,485	BBB+
Corporate obligations	3,204,324	Not available
Foreign bonds	8,320,696	AAA
Government obligations - foreign	10,171,810	AA
Government obligations - foreign	45,891,578	AAA
Government obligations - foreign	13,857,015	Not available
Mutual funds	3,162,338	Not rated
Total	$ 311,130,141	

Moody's Investor Services Credit Ratings:

	Fair value	Credit Ratings
Mortgage and asset-backed securities	$ 782,798	A3
Mortgage and asset-backed securities	189,078	AA1
Mortgage and asset-backed securities	231,608	AA2
Mortgage and asset-backed securities	161,157,846	AAA
Mortgage and asset-backed securities	7,065,564	Not available
Mortgage and asset-backed securities	2,005,787	Not rated
Corporate obligations	1,838,393	Not rated
Corporate obligations	5,624,691	A1
Corporate obligations	4,604,832	A2
Corporate obligations	5,737,414	A3
Corporate obligations	4,484,592	AA1
Corporate obligations	2,701,218	AA2
Corporate obligations	7,739,136	AA3
Corporate obligations	3,554,418	AAA
Corporate obligations	2,714,481	BA1
Corporate obligations	208,141	BA2
Corporate obligations	4,098,858	BAA1
Corporate obligations	7,122,641	BAA2
Corporate obligations	7,865,208	BAA3
Foreign bonds	1,399,236	AAA
Foreign bonds	6,921,460	Not available
Government obligations - foreign	10,171,810	AA1
Government obligations - foreign	47,986,777	AAA
Government obligations - foreign	11,761,816	Not available
Mutual funds	3,162,338	Not rated
Total	$ 311,130,141	

Cash and cash equivalents and all investments at September 30, 2007 include the following:

		Credit ratings	
	Fair value	**Standard & Poor**	**Moody's**
Cash and cash equivalents	$ 34,443,047	Not rated	Not rated
Cash equivalents	600,198	AA-	AAA
Interest-bearing deposit with bank	23,987,652	Not rated	Not rated
Common stock - U.S.	696,871,642	Not rated	Not rated
Common stock - foreign	122,870,071	Not rated	Not rated
Preferred stock - foreign	1,277,687	Not rated	Not rated
Real estate investment trust	1,577,394	Not rated	Not rated
Real estate investment trust	794,536	B-	Not available
Real estate investment trust	1,585,384	Not rated	Not available
U.S. government and agency obligations	4,872,841	AAA	AAA
U.S. Treasury notes	88,872,494	AAA	AAA
U.S. Treasury bonds	31,510,586	AAA	AAA
Limited partnership	51,000,000	Not rated	Not rated
Total cash, cash equivalents and other investments	$1,060,263,532		

The total System's cash, cash equivalents and investment securities at September 30, 2007 consists of:

Fixed income investments	$ 311,130,141
Cash, cash equivalents, and other Investments	1,060,263,532
	$1,371,393,673

Cash and cash equivalents	$ 35,043,245
Interest-bearing deposits with bank	23,987,652
Securities, at fair value	1,312,362,776
	$1,371,393,673

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, 2007, the System had the following investments and maturities:

		Maturity (in years)				
Investment Type	**Fair Value**	**Less than 1 year**	**1 to 5 years**	**6 to 10 years**	**More than 10 years**	**No stated maturity date**
U.S. government and agency obligations	$ 4,872,841	$ 790,247	$ 1,809,494	$ 2,273,100	$ -	$ -
U.S. Treasury notes	88,872,494	12,424,776	69,780,765	6,666,953	-	-
U.S. Treasury bonds	31,510,587	-	-	6,095,967	25,414,620	-
Mutual funds	3,162,338	-	-	-	-	3,162,338
Corporate obligations	58,294,025	2,965,325	23,651,362	17,685,097	13,992,241	-
Foreign bonds	8,320,696	-	-	8,320,696	-	-
Government obligations - foreign	69,920,403	20,877,729	31,903,408	17,139,266	-	-
Mortgage and asset- backed securities	171,432,680	674,763	3,082,893	1,668,642	166,006,382	-
Totals	$ 436,386,064	$37,732,840	$130,227,922	$59,849,721	$ 205,413,243	$ 3,162,338

Custodial Credit Risk - Investments

The custodial credit risk for investments is the risk that, in the event of the failure of a 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 loan 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, 2007 and 2006. The fair value of the underlying securities on loan secured by noncash collateral amounted to $4,749,064 and $6,968,502 at September 30, 2007 and 2006, respectively.

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

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.

Foreign Currency Risk - Investments

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

Foreign Currency Risk Analysis

Fair value of cash equivalents and investments exposed to foreign currency risk by currency as of September 30, 2007:

		Investment type				
Currency	Cash equivalents	Government obligations foreign	Foreign bonds	Common stock - foreign	Preferred stock - foreign	Total exposure
Australian Dollar	$ -	$ 9,656,358	$ 6,921,460	$ -	$ -	$ 16,577,818
Canadian Dollar	1,002	20,492,220	-	866,788	-	21,360,010
Danish Krone	-	-	-	2,200,347	-	2,200,347
Euro Currency	2,245	-	-	53,820,487	1,277,687	55,100,419
Hong Kong Dollar	43	-	-	4,809,232	-	4,809,275
Japanese Yen	13,522	-	-	22,805,652	-	22,819,174
New Zealand Dollar	17,475	2,791,671	1,399,236	-	-	4,208,382
Norwegian Krone	570	6,446,789	-	677,070	-	7,124,429
Pound Sterling	(119,349)	9,148,335	-	24,697,058	-	33,726,044
Singapore Dollar	2,716	9,046,702	-	1,612,822	-	10,662,240
Swedish Krona	548	12,338,328	-	904,248	-	13,243,124
Swiss Franc	30,820	-	-	9,690,455	-	9,721,275
Thailand Baht	8,485	-	-	785,912	-	794,397
Totals	$ (41,923)	$ 69,920,403	$ 8,320,696	$ 122,870,071	$1,277,687	$ 202,346,934

(c) 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, 2007 and 2006 is as follows:

	2007	2006
Forward currency purchases	$ 34,177,501	$ 17,264,281
Forward currency sales	35,260,577	17,080,281
Unrealized gain/loss	$ (1,083,076)	$ 184,000

During the year ended September 30, 2007, the System recognized a foreign exchange loss of $2,269,620. During the year ended September 30, 2006, the System recognized a foreign exchange loss of $27,579. Such gain (loss) is reported in interest, dividends, and other investment income in the accompanying financial statements.

(d) Member Loans

The System's investments in member loans, net of allowances for loan losses, at September 30, 2007 and 2006 were $118,105,341 and $112,557,251, respectively. Such investments in member loans generated interest income of $10,416,831 and $10,451,227 for the years ended September 30, 2007 and 2006, respectively. The average interest rate was 9% for the years ended September 2007 and 2006.

(e) Real Estate

The investment in the Havensight Mall was appraised in November 2006 for a market value of $80 million. The investment in the Havensight Mall real estate generated rental income, net of related expense, of $3,920,213 and $3,592,690 for the years ended September 30, 2007 and 2006, 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 uses a portion of the building in the operation of the System. Depreciation is provided for only that portion of the building that is utilized in the operation of the System. The remaining areas of the building are leased to other government agencies and commercial tenants.

The investment in the System Facilities --- St. Thomas/St. Croix as of September 30, 2007 and 2006 is as follows:

		2007	2006
Land	$	6,824,860	6,824,860
Building, improvements, and fixtures		12,509,617	12,223,602
Construction in progress - St. Croix's building		2,049,195	933,993
		21,383,672	19,982,455
Less accumulated depreciation and amortization		(1,529,706)	(1,420,961)
Totals	$	19,853,966	18,561,494

NOTE 5: 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 2006 or 2005 as to the amount of loans the Custodian can make on behalf of the System.

Loans are generally terminable on demand. The collateral received shall (i) in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the loaned securities, (ii) in the case of loaned securities which are not denominated in the U.S. dollars or whose primary trading market is not located in the United States, have a market value of 105% of the market value of the loaned securities, or (iii) have a higher value as may be applicable in the jurisdiction in which the loaned securities are customarily traded. Such collateral should be kept, at a minimum, at 100% of the market value of the security for all borrowers throughout the outstanding period of the loans. As of September 30, 2007 and 2006, 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 2007 or 2006, 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, 2007 and 2006, such investment pool had a weighted average maturity of 40 days and 49 days, respectively, and an average expected maturity of 409 days and 428 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, 2007 and 2006, the fair value of securities on loan amounted to $305,210,402 and $270,466,714, 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, $313,300,965 including 304,456,020 of cash, and $278,130,176, including $271,161,674 of cash, as of September 30, 2007 and 2006, 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. Investment earnings of $14,973,815 and $12,715,066 for the years ended September 30, 2007 and 2006, respectively, are reported in other investment income in the accompanying financial statements.

NOTE 6: 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:

	2007	2006
Cash	$ 73,005	$ 27,654
Certificates of deposit	3,710	23,425
Totals	$ 76,715	$ 51,079

NOTE 7: DUE FROM THE DEPARTMENT OF FINANCE AND OUTSIDE AGENCIES OF THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS.

At September 30, 2007 and 2006, the amount recorded as due from the Department of Finance of the Government and outside agencies of the Government consists of the following:

	2007	2006
Contributions and payroll withholding due from Department of Finance	$ 8,269,010	$ 7,871,080
Outside agencies	1,115,918	1,237,319
Totals	$ 9,384,928	$ 9,108,399

NOTE 8: CASH OVERDRAFT WITH THE DEPARTMENT OF FINANCE

For both fiscal years, September 30, 2007 and 2006, the System reflects a cash overdraft balance of $10,454,451. This balance represents unreconciled net balances of cash receipts and disbursements processed through the Department of Finance. This treasury function was handled on behalf of the System by the Department of Finance through 2001.

NOTE 9: 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 and to pay issuance and closing costs associated with this financing. This line of credit is a revolving line of credit in the aggregate maximum principal amount of $25 million and accrues interest at a fixed interest rate equal to 6.25% calculated on a 360-day basis and is due and payable quarterly in arrears commencing on the first day of the fourth calendar month following the closing of the loan. At any time that an event of default occurs and is continuing, the loan will bear interest at a rate equal to 3% above the Bank's transfer rate.

The loan agreement provides for a period of 30 consecutive days during each 12-month period, the System has to repay the Bank all funds drawn under the line of credit and there should be no revolving credit outstanding under the line of credit.

The Bank maintains in its possession a certificate of deposit in the original amount of $20 million in the name of the System as security for the payment and performance of all obligations owed by the System to the Bank, including the loan. This certificate of deposit was presented as interest-bearing deposit with the Bank in the accompanying financial statements.

NOTE 10: RISKS OF LOSS

The System is exposed to various risks of loss related to torts; thefts 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.

NOTE 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 counsels, that losses, if any, resulting from these claims will not have a material effect on the System's financial position.

NOTE 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 to reimbursement of out-of-pocket expenses incidental to custodial duties. Such fees amounted to $6,084,449 and $5,484,412 for the years ended September 30, 2007 and 2006, respectively.

NOTE 13: SUBSEQUENT EVENTS

The Government filed an action for condemnation to take property for roadway improvement. The Government estimated the value of the property to be $1,540,302 which the System believed did not adequately represent the appraised value. The case was settled in December 2007 for $2.4 million.

Attilanus Fund I, L.P. – Limited Partnership

On June 12, 2008, Attilanus accepted a structured purchase of its settlement life insurance policy portfolio offer 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, residual Notes and $13.7 million in cash. From this transaction 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.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

Schedule of Funding Progress

September 30, 2007

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 (**)	1,078,291,775	307,300,371	1,385,592,146	77.82%	*	*
1999 (***)	1,255,210,585	518,081,040	1,773,291,625	70.78%	307,568,648	168.44%
2000 (**)	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 (****)	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 (*****)	1,360,288,336	977,502,024	2,337,790,360	58.19%	372,996,234	262.07%
2005 (******)	1,366,982,183	1,088,574,553	2,455,556,736	55.67%	355,462,276	306.24%
2006 (*******)	1,421,825,127	1,136,153,570	2,557,978,697	55.58%	381,983,539	297.44%
2007(********)	1,509,844,144	1,147,749,768	2,657,593,912	56.81%	419,161,255	273.82%

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

(*) Information not available.

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

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

(****) 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.

(*****) 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.

(******) 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.

(*******) Estimated based on the financial information provided as of September 30, 2006 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, 2006 matched that assumed by the actuarial assumptions.

(*******) Estimated based on the financial information provided as of September 30, 2007 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, 2007 matched that assumed by the actuarial assumptions.

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 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 and thereafter:

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

Schedule of Employer Contributions

September 30, 2007

	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**	138,663,669	60,778,382	43.83%

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

See accompanying independent auditors' report on required supplementary information.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

Note to Required Supplementary Schedule

September 30, 2007

NOTE A SUMMARY OF ACTUARIAL ASSUMPTIONS

The schedule of funding progress and schedule of employer contributions are reported as historical trend information. The schedule of funding progress is presented to measure the progress being made to accumulate sufficient assets to pay benefits when due. The schedule of employer contributions is presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the retirement system on a sound financial basis.

The comparability of trend information 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 valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	September 30, 2003
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
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	8% per year compounded annually
Projected salary increases	5.5% per year compounded annually, attributable to inflation
Cost-of-living adjustments	Retirement benefits increased by 1.5% of the original amount each year after age 60. Disability benefits are also increased by 1%