

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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
Years Ended September 31, 2011 and 2010
AND
INDEPENDENT AUDITORS' REPORT

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& Co.**

Certified Public Accountants and Management Consultants

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of plan net assets of the Government of the Virgin Islands Employees' Retirement System (the System) as of September 30, 2011, 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 2010 financial statement, and in our report dated August 24, 2011, we expressed a qualified opinion on those statements.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the System are intended to present only the portion of fund information of the Government of the Virgin Islands that are attributable to the transactions of the System. They do not purport to, and do not, present fairly the Government of the Virgin Islands' overall financial position and results of operations as of September 30, 2011.

As discussed in Note 3(c), the financial statements include investments in limited partnerships valued at \$52,915,221. The System lacks the procedures to assess the reasonableness of the reported values provided by the fund managers. The System's estimate of the recorded limited partnerships' value is based on information provided by the general partner of the limited partnerships. At September 30, 2011 management has elected to maintain the investment balance reported in the prior year for one of the limited partnerships due to the uncertainty regarding the ultimate recoverability of the investment. In our opinion, those procedures are not adequate to determine whether the investments approximate fair value is in conformity with accounting principles generally accepted in the United States of America. The effect on the financial statements and supplemental schedules of not applying adequate procedures to determine the fair value of the securities is not determinable.

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, described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the statement of net assets of the Government of the Virgin Islands Employees' Retirement System as of September 30, 2011, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

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 36 through 37 are not a required part of the basic financial statements, but are required supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. 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.

Bern Smith & Co

Washington, D.C.

October 23, 2012, except as to Note 3(b) and Note 12, which is as of December 5, 2012

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended September 30, 2011

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

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

Overview of the Financial Statements

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

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

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

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

Notes to the Financial Statements are an integral part of the financial statements and provide additional information that is necessary in order to gain a comprehensive understanding of the data reported in the financial statements. This section also now includes the disclosure of actuarial methods and significant assumptions used in the most recent actuarial valuations and the funded status of the Plan in accordance with GASB Statement No. 50, "Pension Disclosures – an Amendment of GASB Statements No. 25 and No. 27."

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

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2011**

FINANCIAL ANALYSIS OF THE SYSTEM AS A WHOLE

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

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

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

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

- The cash and cash equivalents increased to approximately \$112.4 million as of September 30, 2011 from approximately \$101.2 million as of September 30, 2010. Interest bearing deposits with financial institutions accounted for \$27.9 million and \$27.6 million, as of September 30, 2011 and 2010, respectively. The cash and cash equivalents excluding interest bearing deposits are segregated as follows (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Cash in money market accounts	\$ 71,064	\$ 62,872	\$ 8,191
Cash in operational accounts	41,380	38,314	3,066
Total cash and cash equivalents	\$ 112,444	\$ 101,186	\$ 11,257

- The increase in money market accounts of approximately \$8.2 million reflects the strategy of the fund managers to be in a liquid position to take advantage of the opportunistic conditions. The increase in operating cash was to make funds available to fund the increased pension expenditures.
- Holdings in foreign currency exchange contracts accounted for \$2.1 million of total assets.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended September 30, 2011

- Investments decreased approximately \$109 million, which represented an 11% decrease over September 30, 2010. Both the domestic and international equity segments impacted the decreased performance of the Fund. For the year ended September 30, 2011 the total return on the investment portfolio amounted to 1%. The following is also noted:
 - The invested securities lending collateral, which is included in cash, cash equivalents and investments, decreased to approximately \$166.3 million as of September 30, 2011 from approximately \$170.9 million as of September 30, 2010. This decrease of \$4.58 million was offset by a similar decrease of the related liability. These securities lending transactions pay a predetermined interest rate with significant covenant protecting the lender to exposure to loss. The change is dependent on the securities loaned at year end by the System's custodian.
 - The unsettled securities sold increased \$810 thousand to approximately \$8.64 million as of September 30, 2011 from approximately \$7.79 million as of September 30, 2010.
- The members' loans increased \$1.282 million to approximately \$139.5 million as of September 30, 2011 from approximately \$138.2 million as of September 30, 2010. The 1% increase was attributable primarily to the increased personal loans granted during the year. The allowance for losses increased from prior year.
- The real estate increased approximately \$4.57 million due to the net effect of additions associated with the purchase of the Estate Coakley Bay property for \$5 million and a write down of \$87 thousand to record the St. Thomas Complex at its appraised value. Depreciation expense of \$590 thousand was recognized during the year.
- Total other assets increased by approximately \$5.25 million.

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

- The System has a cash overdraft with the bank of approximately \$3.20 million as of September 30, 2011.
- The line of credit with financial institution for approximately \$9.96 million as of September 30, 2010 was reduced to \$-0-.
- Securities lending transactions decreased by approximately \$4.58 million when compared to prior year, and is offset by a similar decrease in the related asset.
- The unsettled securities purchased increased \$5.5 million to approximately \$9.91 million as of September 30, 2011 from approximately \$4.39 million as of September 30, 2010.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2011**

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

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

<u>Additions, Deductions, and Changes in Plan Net Assets</u>	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
Net appreciation/ (depreciation) in fair value of investments	\$ (17,597)	\$ 68,699	\$ (86,296)	(125.61%)
Net depreciation in fair value of real estate	(87)	(3,492)	3,405	97.51%
Interest, dividends, and other	36,773	38,722	(1,949)	(5.03%)
Rental income, net	3,539	3,057	482	15.73%
Less investment management fees and custodian fees, borrowers' rebates and other agent fees on securities lending transactions, and other expenses	(5,870)	(5,480)	(390)	7.12%
Total investment (loss) income	16,758	101,506	(84,748)	(83.49%)
Total contribution income	123,847	117,112	6,735	5.75%
Other income	4,126	2,653	1,473	55.52%
Total additions (decrease)	144,731	221,271	(76,540)	34.59%
Benefits paid directly to members	202,900	192,678	10,222	5.31%
Refunds of members' contributions	5,281	2,007	3,274	163.13%
Administrative and operational expenses	14,853	13,609	1,244	9.14%
Total deductions	223,034	208,294	14,740	7.08%
Net increase (decrease)	\$ (78,303)	\$ 12,977	\$ (91,281)	(703.41%)

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

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

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

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended September 30, 2011

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

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

The System is a long-term investor and manages the pension fund with long-term goals in mind. The primary investment philosophy of the System is diversity among various asset classes, which is the best way to achieve its long-term goal. As of fiscal year September 30, 2011, the asset allocation was slightly out of line with the System's target. GERS management along with its Board of Trustees, under advisement from its financial advisors, will continue to review all investment programs and monitor the investment managers that are responsible for investing the assets.

■ **Net Depreciation in Fair Value of Real Estate**

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

■ **Interest, Dividends, and Other**

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

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended September 30, 2011

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

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

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

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

■ **Contribution Income**

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

■ **Other Income**

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

■ **Benefits Paid Directly to Members**

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

■ **Administrative and Operational Expenses**

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

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2011**

Comparison of 2010 and 2009 Assets, Liabilities, and Net Assets

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

<u>Net Assets</u>	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
Cash, cash equivalents and Investments	\$1,303,416	\$1,308,890	\$ (5,474)	(0.4%)
Member loans, net	138,188	132,693	5,495	4%
Real estate, net	92,237	89,200	3,037	3%
Other assets	15,038	22,437	(7,399)	(33%)
Total assets	1,548,879	1,553,220	(4,341)	(0.3%)
Total liabilities	196,592	213,909	(17,317)	(8%)
Total net assets	\$1,352,287	\$1,339,311	\$ 12,976	1%

At September 30, 2010 and 2009, the System's total assets were \$1.549 billion and \$1.553 billion, respectively. This decrease in total assets resulted mainly from the net effect of the following:

- The cash and cash equivalents increased to approximately \$101.2 million as of September 30, 2010 from approximately \$83.3 million as of September 30, 2009. Interest bearing deposits with financial institutions accounted for \$27.6 million and \$27.1 million, as of September 30, 2010 and 2009, respectively. The cash and cash equivalents excluding interest bearing deposits are segregated as follows (dollar amounts in thousands):

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Cash in money market accounts	\$ 62,872	\$ 66,864	\$ (3,992)
Cash in operational Accounts	38,314	16,477	21,837
Total cash and cash equivalents	\$ 101,186	\$ 83,341	\$ 17,845

- The decrease in money market accounts of approximately \$4.0 million reflects the investment managers' reallocation of funds for higher opportunity investments during the last quarter of the fiscal year. The increase in operating cash was to make funds available to: a) pay off the line of credit of \$9.9 million, b) funding for alternative investments of \$4.7 million, and c) \$7.2 million to fund current operating deficiencies.
- Investments decreased approximately \$10.2 million, which represented a 1% decrease over September 30, 2009. Both the domestic and international equity segments impacted the decreased performance of the Fund. For the year ended September 30, 2010 the total return on the investment portfolio amounted to 9.45%. The following was also noted:
 - The unsettled securities sold decreased \$6.26 million to approximately \$7.79 million as of September 30, 2010 from approximately \$14.1 million as of September 30, 2009.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended September 30, 2011

- The members' loans increased \$5.5 million to approximately \$138.2 million as of September 30, 2010 from approximately \$132.7 million as of September 30, 2009. The 4% increase was attributable primarily to the increased personal loans granted during the year. The allowance for losses remains unchanged from prior year.
- The real estate increased approximately \$3.04 million due to the net effect of additions associated with the construction of the St. Croix headquarters of \$6.77 million offset by a \$3.56 million write down to record the building at its appraised value. Depreciation expense of \$170 thousand was recognized during the year.
- Total other assets decreased by approximately \$8.9 million.

At September 30, 2010, the System's total liabilities were \$196.6 million compared with \$213.9 million at September 30, 2009.

- The System has a cash overdraft with the bank of approximately \$4.06 million as of September 30, 2010.
- The line of credit with financial institution increased by \$2.65 million to approximately \$9.96 million as of September 30, 2010. 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.
- Securities lending transactions decreased by approximately \$13.6 million when compared to prior year, and is offset by a similar decrease in the related asset.
- The unsettled securities purchased decreased \$6.1 million to approximately \$4.39 million as of September 30, 2010 from approximately \$10.5 million as of September 30, 2009.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2011**

Comparison of 2010 and 2009 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	2010	2009	Increase (Decrease)	Percentage
Net appreciation in fair value of investments	\$ 68,699	\$ 4,247	\$ 64,452	1,518%
Net depreciation in fair value of real estate	(3,492)	(14,450)	10,958	-100%
Interest, dividends, and other	38,722	48,612	(9,890)	-20%
Rental income, net	3,057	2,752	305	11%
Less investment management fees and custodian fees, borrowers' rebates and other agent fees on securities lending transactions, and other expenses	5,480	5,890	(410)	-7%
Total investment (loss) income	101,506	35,271	66,235	188%
Total contribution income	117,112	120,277	(3,165)	-3%
Other income	2,653	2,896	(243)	-8%
Total additions	221,271	158,444	62,827	40%
Benefits paid directly to members	192,678	177,617	15,061	8%
Refunds of members' contributions	2,007	2,916	(909)	-31%
Administrative and operational expenses	13,609	13,365	244	2%
Total deductions	208,294	193,898	14,396	7%
Net increase (decrease)	\$ 12,977	\$ (35,454)	\$ 48,431	-137%

For the year ended September 30, 2010, operations resulted in a net increase in the plan net assets of approximately \$13 million when compared to the net decrease of \$35.5 million for the year ended September 30, 2009. This net increase of \$48.4 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, 2010 was approximately \$68.7 million, reflecting a 1,518% increase over the \$4.25 million net appreciation reported for the year ended September 30, 2009. For fiscal year ended September 30, 2010 the System generated positive absolute returns in its domestic and international equity holdings coupled with strong performance in the domestic and international fixed income portfolios.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended September 30, 2011

The Fund's investments in U.S. government and agency obligations, which delivered strong returns amid renewed risk aversions, had a net appreciation of \$9.1 million for the year ended September 30, 2010. The domestic and international common stock portfolio's strong positive performance was supported with a combined net appreciation of \$41.1 million, which exceeded their comparative benchmark for the year ended September 30, 2010. Mutual Funds, which tracked the S&P 500, reflected a net appreciation of \$4.3 million for the same period.

For the period ended September 30, 2010, the net appreciation approximated \$6.5 million for corporate obligations investments, \$2.1 million for foreign bonds and government obligations and \$6.1 million for mortgage and asset-backed securities. The Fund's fixed income managers focused on high quality assets that possessed strategic opportunities, which allowed for over performance in the respective portfolios.

The 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 diversification among various asset classes, which is the best way to achieve its long-term goal. As of fiscal year September 30, 2010, the asset allocation was slightly out of line with the System's target. GERS management along with its Board of Trustees, under advisement from its financial advisors, will continue to review all investment programs and monitor the fund managers that are responsible for investing the assets.

■ Net Depreciation in Fair Value of Real Estate

The value of the St. Croix Headquarters property was adjusted to reflect its fair market value consistent with the implementation of GASB No. 25. The appraisal resulted in the write down of the property by \$3.56 million.

■ Interest, Dividends, and Other

Total interest, dividends, and other decreased to approximately \$38.7 million for the year ended September 30, 2010 from approximately \$48.6 million for the year ended September 30, 2009. The decrease of \$9.9 million in interest, dividends, and other was due primarily to the net combination of the following factors: Interest income decreased to \$16.8 million for the fiscal year ended September 30, 2010 from \$21 million for fiscal year ended September 30, 2009. This reduction of \$4.2 million was a result of the decreasing interest rate environment.

Dividends decreased \$429 thousand in fiscal year ended September 30, 2010 to \$8.5 million from approximately \$9 million in fiscal year ended September 30, 2009. Dividend payouts in the fund still suffered from a slow recovery, as dividend-yielding stocks tended to lag the broader market for the year.

Other investment income decreased to \$799 thousand for fiscal year September 30, 2010 from \$7 million for fiscal year September 30, 2009. The \$6.2 million decrease for fiscal year 2010 as compared to fiscal year 2009 is due primarily to reductions in income generated from the securities lending transactions \$2.5 million, a net decrease in gains on foreign exchange, and spot contracts of approximately \$5.2 million offset by unrealized gains on foreign exchange payables and other \$1.5 million.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended September 30, 2011

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

The investment and other fees decreased to approximately \$5.48 million for the year ended September 30, 2010 from approximately \$5.89 million for the year ended September 30, 2009.

- **Contribution Income**

Total contribution income decreased by approximately 3% or \$3.2 million to \$117 million in fiscal year 2010 from \$120.3 million in fiscal year 2009.

- **Other Income**

Other income decreased to \$2.7 million for fiscal year ended September 30, 2010 from approximately \$2.9 million dollars in fiscal year ended September 30, 2009.

- **Benefits Paid Directly to Members**

Benefits paid directly to members increased to approximately \$192.7 million for the year ended September 30, 2010 from approximately \$177.6 million for the year ended September 30, 2009 due primarily to the increase in the overall number of retirees receiving benefits through the annuity payroll and a cost of living adjustment of 1.5% and 1% provided to retired and disabled beneficiaries, respectively.

- **Administrative and Operational Expenses**

Administrative and operational expenses increased by approximately \$245 thousand to approximately \$13.6 million for the year ended September 30, 2010 from \$13.4 million for the year ended September 30, 2009. The increase was mainly due to additional costs associated with the implementation of the new loans and benefits software to improve the delivery of services to the members of the System.

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 CHANGES IN PLAN NET ASSETS

	Years Ended September 30,	
	2011	2010
Additions:		
Investment income (loss):		
Net (depreciation) appreciation in fair value of investments	\$ (17,597,429)	\$ 68,698,838
Net depreciation in fair value of real estate	(87,431)	(3,491,754)
Interest and dividends	35,760,273	37,922,948
Other investment income	1,012,358	798,785
Rental income (loss) - net of related expenses:		
Havensight Mall	3,327,866	2,709,662
System Facilities - St. Thomas/St. Croix	210,863	347,541
	<u>22,626,500</u>	<u>106,986,020</u>
Less:		
Investment management fees and custodian fees	4,906,189	4,550,888
Borrowers' rebates and other agent fees on securities lending transactions	315,683	547,223
Other expenses	648,016	382,332
	<u>16,756,612</u>	<u>101,505,577</u>
Contributions:		
Employer	80,849,762	77,004,630
Employees	42,997,145	40,107,669
	<u>123,846,907</u>	<u>117,112,299</u>
Other income	<u>4,125,894</u>	<u>2,653,466</u>
Total additions	<u>144,729,413</u>	<u>221,271,342</u>
Deductions:		
Benefits paid directly to members	202,899,505	192,678,052
Refunds of members' contributions	5,280,759	2,007,144
Administrative and operational expenses	14,853,538	13,609,415
	<u>223,033,802</u>	<u>208,294,611</u>
Net increase (decrease)	(78,304,389)	12,976,731
Plan net assets held in trust for pension benefits:		
Beginning of year	<u>1,352,287,700</u>	<u>1,339,310,969</u>
End of year	<u>\$ 1,273,983,311</u>	<u>\$ 1,352,287,700</u>

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

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2011 and 2010

1. Summary of Significant Accounting Policies

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

Reporting Entity

The Government of the Virgin Islands Employees' Retirement System (the System) is a 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	7,868	7,497
Current employees	<u>10,731</u>	<u>11,117</u>
	<u>18,599</u>	<u>18,614</u>

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

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation 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 Board may set cost-of-living increases for annuitants and pensioners and determine when the annuity should be paid on the basis of the most recent actuarial valuation and the Consumer Price Index.

The 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.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2011 and 2010

1. Summary of Significant Accounting Policies (continued)

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

■ Eligibility and Membership

As a condition of employment, a person employed by the Government shall become a member of the plan, provided such person is under age 55 on the date of appointment. Membership contributions shall begin upon the completion of one month of service.

■ Contributions

Contributions to the System are made by the Government and the members. Government and member contributions are not actuarially determined but are set by statute. The Government's contributions together with the members' contributions and the income of the System should be sufficient to provide an adequate actuarially determined reserve for the benefits prescribed by the Code.

The contributions required to fund the System on an "actuarial reserve basis" are calculated periodically by the System's actuarial consultant. The actuarial valuation as of September 30, 2006 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 17.5% 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 safety (hazardous employees and eligible employees under Act 5226). Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective November 2, 2005, legislation was passed that required that the annual interest on refunded contributions be determined by the Board based on the experience of the System which shall not be less than 2%, nor more than 4% per annum. Due to the volatility of the stock market, the GERS Board of Trustees changed the interest rate to 2% effective July 1, 2009.

■ Early Retirement Act of 1994

In August 1994, legislation providing an early retirement incentive was passed. The legislation was subsequently amended on October 13, 1994, December 30, 1994 and December 5, 1995. Among other matters, the legislation allowed a member of the System who had a combined aggregate number of years of credited service plus number of years of age attained, equal to at least 75 years as of the date of the legislation to retire without reduction of annuity. Members who attained the age of 50 with at least 10 but less than 30 years of credited service may add an additional three years to their age for this computation. Members with 30 years of service or who can retire without penalty under the Code shall have their average compensation increased by 4 percentage points.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2011 and 2010

1. Summary of Significant Accounting Policies (continued)

■ Early Retirement Act of 1994 (*continued*)

For each employee electing to retire pursuant to Section 8(a) of the above-mentioned Act, the Government shall contribute to the System, on a quarterly basis, an amount equal to the Employer and employee contributions that would have been made until the employee reached age 62 had the employee not elected to retire under this provision.

For employees electing to retire under Section 8(b) of the Act, the Government shall contribute to the System a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4% higher during the 3 years used to compute the employee's average compensation figure, plus a sum of \$5,000. Based on the calculation, this amount was \$26,922,763 and \$26,903,112 as of September 30, 2011 and 2010, respectively, of which a total of \$26,855,860 and \$26,835,832 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 to obtain loans from the System to finance a home, automobile, or other personal needs. The maximum mortgage loan that could be granted to members who have been contributing to the System for at least five years is \$350,000. 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 purchase land.

Members who have contributed to the System for at least five years can borrow up to \$18,000 for the purchase of an automobile. Auto loans bear interest rates that ranged between 8.75% - 9.50% with a maximum term of five years. Active members may also borrow up to 75% of their contributions paid into the System to a maximum borrowing of \$50,000 as a personal loan. The interest rate offered on personal loans was 8.00 % to 8.5% for the year. Retired members could qualify for personal loans up to \$10,000 at the same interest rate as active members; however, effective fiscal year 2009, retirees have the option of refinancing their personal loan provided the original amount is paid down by at least 50%.

■ 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.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2011 and 2010

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting

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

Cash and Cash Equivalents

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

Method Used to Value Investments

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

Investments in member loans are valued at the outstanding principal balance less an allowance for estimated loan losses. Management of the System believes that, based upon interest rate and risk factors, this valuation approximate fair value. Investments in limited partnerships have no readily ascertainable market value and are based on the valuation reported by the general partners.

Investment in the Havensight Mall real estate is based on an independent appraisal as of October 2009, the value has remained unchanged for September 30, 2011 and 2010. Management believes that the carrying value was applicable in both years.

Investment in the System's facilities - St. Thomas/St. Croix real estate is carried at historical cost, net of accumulated depreciation and amortization on that portion of the facility which is occupied by the System.

There are certain market risks, credit risks, liquidity risks, foreign exchange risks, and event risks which may subject the System to economic changes occurring in certain industries, sectors, or geographies.

Depreciation

Capital assets utilized in the operation of the System are recorded at historical cost and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Furniture and equipment are depreciated over 5 years and building and improvements over 25 years. The capitalization threshold used by the System was \$1,000 and an estimated useful life in excess of one year.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2011 and 2010

1. Summary of Significant Accounting Policies (continued)

Tax Exemption

The System is exempt from all income and property taxes.

Use of Estimates

The preparation of financial statements in 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's summarized comparative information. Such information does not include sufficient detail or reclassifications to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended September 30, 2010, from which the summarized information was derived.

2. Cash and Cash Equivalents

The cash and cash equivalents include the following:

	<u>2011</u>	<u>2010</u>
Cash in money market accounts	\$ 71,063,517	\$ 62,872,120
Cash in operational accounts	41,380,317	38,314,150
Total cash and cash equivalents	<u>\$112,443,834</u>	<u>\$101,186,270</u>

3. Investments

(a) Marketable Securities

The System's investments in marketable securities are held in trust by a Custodian bank (State Street Bank) 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:

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2011 and 2010

3. Investments (continued)

- United States Government agencies and instrumentalities obligations;
- Bonds or notes which are general obligations of any state in the United States, or of any political subdivision;
- Bonds or other obligations which are payable from revenue or earnings specifically pledged of a public utility, which is municipally owned either directly or indirectly through any civil division, authority, or public instrumentality of the municipality;
- Bonds or any other evidences of indebtedness issued or guaranteed by any domestic railroad corporation, or in equipment trust certificates, provided that these securities bear a rating of "BBB" or better by any two nationally known security rating agencies. Not more than 2% of total investments should consist of any one issue of these bonds;
- Bonds or other evidences of indebtedness of any domestic public utility corporation provided that these securities bear a rating of "BBB" or better by any two nationally known security rating agencies. Not more than 2% of total investments should consist of any one issue of these bonds;
- Bonds or other evidences of indebtedness of any domestic industrial corporation provided that these securities bear a rating of "BBB" or better by any two nationally known security rating agencies. Not more than 2% of total investments should consist of any one issue of these bonds;
- Bonds or other obligations of the Commonwealth of Puerto Rico or of the territories of the United States, provided that the investment in any one issue of bonds of these entities should not exceed 10% thereof, and that the total investment in all securities of any one of such entities should be limited to 2% of the total investment account of the System;
- 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;

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2011 and 2010

3. Investments (continued)

- Mortgage loans to members or retirees of the System for initial construction phases of a home, for purchase of a home, or for capital improvements of a home;
- Chattel mortgages to members or retirees of the System for the purchase of new automobiles, which may not exceed \$18,000;
- Personal loans to active members and those members who have retired and are entitled to annuities, provided such loans do not exceed \$50,000 for active members and \$10,000 for retirees. In addition, effective fiscal year 2009 retirees have the option of refinancing their personal loans provided the original amount is paid down by at least 50%;
- 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;

(b) Investment Loans

In December 2009, the System executed an agreement with Seaborne Airlines to provide them with an interest-bearing term loan of \$1,300,000 and a convertible coupon interest-bearing note of \$2,000,000 both with terms of five years. All of Seaborne's property is pledged as collateral. At September 30, 2011 the combined investment loan balance was \$3,126,666.

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

- 1) The original principal indebtedness of the term note was amended and restated to be \$2,300,000. The unpaid principal of the term note shall bear interest at the rate of 6.25% per annum.
- 2) The original principal indebtedness of the convertible note was amended and restated to be \$1,000,000. The interest is accrued at the rate of 8.25% per annum payable quarterly in arrears until the maturity date. The note may be prepaid in whole or in part with a prepayment penalty of \$300,000.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2011 and 2010

3. Investments (continued)

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

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

On May 11, 2012, GERS exercised its rights under the loan agreement and executed a preliminary disposition agreement with Carambola Northwest, LLC which provided that the lender would assume control of the management of Carambola Beach Resort and Spa; the borrower would indemnify the lender for any undisclosed liabilities; and the lender would indemnify the borrower for any disclosed liabilities; and that due diligence would be completed within 30 days of the original disposition agreement.

On November 2, 2012, the final disposition agreement was executed with Carambola Northwest, LLC. The agreement was entered to provide for the settlement of the obligations of the borrower and guarantor under the loan and conveyance of the assets of the borrower to the lender; and the resolution of the obligations of the borrower and guarantor to the lender.

(c) *Limited Partnership*

The value of the limited partnership investments as of September 30, 2011 consisted of \$42,836,274 invested in Attilanus, L.P. and \$10,078,947 invested in other limited partnership ventures within the Fund's portfolio.

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

- The investment is in a group of life insurance policies, with a minimum number of 100 measured lives.
- The face value of any single policy investment by the System does not exceed the greater of \$5,000,000 or 2% of the aggregate face value of policy investments by the System.
- The aggregate face value of policy investments by the System on any individual life does not exceed the greater of 10,000,000 or 1% of the aggregate face value of policies purchased as investments by the System.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2011 and 2010

3. Investments (continued)

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.

On June 12, 2008, Attilanus accepted a structured purchase offer of its settlement life insurance policy portfolio from Coit Capital, a division of Riviere Securities, Ltd. This purchase was executed through a special purpose entity, Life Settlements Absolute Return (LASAR), which issued \$40 million in 9% preference notes, \$24 million in 9.5% mezzanine notes and residual notes and \$13.7 million in cash. From this transaction the GERS received a distribution in the form of a return of capital totaling \$8,163,726. It is expected that future sale of the mezzanine notes will result in additional return of capital to the System and other investors.

The fair value of the limited partnership investment of \$42,836,274 is based on the valuation reported on the System's financial statements as of September 30, 2010. The valuation provided by the Fund's general manager as of September 30, 2011 was \$58,489,660. Senior life settlement contracts do not have active trading markets from which fair value can be determined. The System has not obtained an independent valuation of this investment; and has elected to report the 2011 value consistent with that of 2010. The System believes that its estimate is conservative.

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.

(d) 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.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2011 and 2010

The fair value of forward currency exchange contracts outstanding at September 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Forward currency purchases	\$41,384,374	\$46,083,985
Forward currency sales	39,274,205	47,086,139
	<u>\$ 2,110,169</u>	<u>\$(1,002,154)</u>

During the year ended September 30, 2011, the System recognized a foreign exchange loss of \$3,106,268. During the year ended September 30, 2010 the System recognized a foreign exchange loss of \$207,601. Such gain (loss) is reported in interest, dividends and other investment income in the accompanying financial statements.

The fair value of the System's investments at September 30, 2011 and 2010 amounted to \$914,429,020 and \$1,023,516,509 respectively. The investments generated interest and dividend income of \$22,646,073 and \$25,358,251 for the years ended September 2011 and 2010, respectively.

In addition, the Fund's investments including gains and losses on investments bought and sold, as well as held during the year, depreciated in value by \$17,597,429 in fiscal year 2011 when compared to a \$68,698,838 appreciation in fiscal year 2010 as follows:

	<u>2011</u>	<u>2010</u>
U.S. government and agency obligations	\$ 5,523,995	\$ 9,103,385
Corporate obligations	(2,028,851)	6,548,285
Foreign bonds and government obligations	(1,022,460)	2,080,596
Common and preferred stock - U.S.	(12,459,518)	39,884,035
Common and preferred stock - foreign	(10,884,815)	1,187,179
Mortgage and asset-backed securities	1,464,711	6,053,299
Mutual funds	749,794	4,301,226
Real Estate Investment Trust	(470,137)	429,293
Limited partnership	1,529,852	(888,460)
Totals	<u>\$ (17,597,429)</u>	<u>\$ 68,698,838</u>

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

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2011 and 2010

the average of credit ratings for a certain fair value percentage of the portfolio meet a minimum requirement.

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

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

Custodial Credit Risk-Deposits

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

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

At September 30, 2011 and 2010, 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, 2011 include the following:

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2011 and 2010

3. Investments (continued)

Standard & Poor's Credit Ratings:

	<u>Fair value</u>	<u>Credit Ratings</u>
Mortgage and asset-backed securities	\$ 250,313	A
Mortgage and asset-backed securities	487,428	A+
Mortgage and asset-backed securities	521,974	AA
Mortgage and asset-backed securities	48,439,518	AA+
Mortgage and asset-backed securities	12,885,079	AAA
Mortgage and asset-backed securities	2,465	BB
Mortgage and asset-backed securities	230,007	BB+
Mortgage and asset-backed securities	114,929	BB-
Mortgage and asset-backed securities	484	CC
Mortgage and asset-backed securities	997,356	CCC
Mortgage and asset-backed securities	145,308	D
Mortgage and asset-backed securities	7,258,236	Not Rated
Corporate obligations	14,336,232	A
Corporate obligations	9,061,962	A-
Corporate obligations	6,727,793	A+
Corporate obligations	778,050	AA
Corporate obligations	3,983,382	AA-
Corporate obligations	3,290,846	AA+
Corporate obligations	885,613	AAA
Corporate obligations	343,907	B+
Corporate obligations	100,411	BB
Corporate obligations	335,508	BB+
Corporate obligations	14,690,009	BBB
Corporate obligations	10,695,280	BBB-
Corporate obligations	8,988,335	BBB+
Corporate obligations	193,601	Not Rated
Corporate obligations	192,575	Not Available
Foreign bonds	248,904	A-
Foreign bonds	4,451,866	AAA
Foreign bonds	3,609,406	Not Available
Government obligations - foreign	2,566,655	AA-
Government obligations - foreign	3,066,325	AA+
Government obligations - foreign	16,945,710	AAA
Government obligations - foreign	14,642,991	Not Available
Government obligations - foreign	16,188,419	Not Rated
Investment Loan	18,612,667	Not Rated
Mutual Funds	13,535,720	Not Available
Total	<u>\$ 239,805,264</u>	

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2011 and 2010

3. Investments (continued)

Moody's Investor Services Credit Ratings:

	<u>Fair value</u>	<u>Credit Ratings</u>
Mortgage and asset-backed securities	\$ 71,446	A1
Mortgage and asset-backed securities	201,505	A2
Mortgage and asset-backed securities	291,144	A3
Mortgage and asset-backed securities	144,788	AA1
Mortgage and asset-backed securities	75,835	AA2
Mortgage and asset-backed securities	60,322,949	AAA
Mortgage and asset-backed securities	6,057	B1
Mortgage and asset-backed securities	360,594	B2
Mortgage and asset-backed securities	282,937	B3
Mortgage and asset-backed securities	194,821	BA1
Mortgage and asset-backed securities	59,172	BA3
Mortgage and asset-backed securities	151,484	BAA2
Mortgage and asset-backed securities	2,651	BAA3
Mortgage and asset-backed securities	484	C
Mortgage and asset-backed securities	100,385	CA
Mortgage and asset-backed securities	343,269	CAA2
Mortgage and asset-backed securities	756,103	CAA3
Mortgage and asset-backed securities	7,967,473	Not Rated
Corporate obligations	3,070,576	A1
Corporate obligations	5,283,327	A2
Corporate obligations	11,577,298	A3
Corporate obligations	951,399	AA1
Corporate obligations	4,295,546	AA2
Corporate obligations	7,798,524	AA3
Corporate obligations	885,613	AAA
Corporate obligations	198,000	B1
Corporate obligations	343,907	B2
Corporate obligations	631,048	BA1
Corporate obligations	311,942	BA2
Corporate obligations	16,023,095	BAA1
Corporate obligations	14,038,318	BAA2
Corporate obligations	8,808,735	BAA3
Corporate obligations	168,000	WR
Corporate obligations	193,601	Not Rated
Corporate obligations	24,575	Not Available
Foreign bonds	6,951,951	AAA
Foreign bonds	248,904	BAA1
Foreign bonds	1,109,321	Not Rated
Government obligations - foreign	4,879,789	AA1
Government obligations - foreign	5,463,227	AA2
Government obligations - foreign	37,560,505	AAA
Government obligations - foreign	5,506,579	Not Available
Investment Loan	18,612,667	Not Rated
Mutual funds	13,535,720	Not Available
Total	<u>\$ 239,805,264</u>	

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2011 and 2010

3. Investments (continued)

Cash and cash equivalents and other investments at September 30, 2011 include the following:

	Fair value	Credit Ratings	
		Standard & Poor	Moody's
Cash and cash equivalents	\$ 112,443,834	Not Rated	Not Rated
Certificates of Deposits	27,972,226	Not Rated	Not Rated
Common stock – U.S.	418,529,088	Not Rated	Not Rated
Common stock – foreign	68,296,081	Not Rated	Not Rated
Real estate investment trust	1,396,615	Not Available	Not Available
Real estate investment trust	2,413,109	Not Available	Not Rated
U.S. government & agency obligations	736,750	A	AA2
U.S. government & agency obligations	1,015,050	A-	AA1
U.S. government & agency obligations	15,113,296	AA+	AAA
U.S. government & agency obligations	7,528,332	Not Rated	Not Rated
U.S. Treasury Notes	45,332,147	AAA	AAA
U.S. Treasury Bonds	25,654,978	Not Rated	Not Rated
Municipals	2,090,169	A1	A-
Municipals	1,639,060	A1	A+
Municipals	317,691	A2	A
Municipals	714,225	AA1	AAA
Municipals	301,591	AA2	A
Municipals	397,851	AA3	A+
Municipals	1,039,092	AA3	AA-
Municipals	1,083,416	BB-	B3
Municipals	137,768	BBB	BAA3
Limited partnership	52,915,221	Not Rated	Not Rated
Total cash, cash equivalents and other investments	<u>\$ 787,067,590</u>		

The total System's cash, cash equivalents and investment securities at September 30, 2011 consists of:

Fixed income investments	\$ 239,805,264
Cash, cash equivalents, and other Investments	<u>787,067,590</u>
	<u>\$1,026,872,854</u>
	\$
Cash and cash equivalents	112,443,834
Investments, at fair value	<u>914,429,020</u>
	<u>\$1,026,872,854</u>

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

**NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2011 and 2010**

3. Investments (continued)

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, 2011, the System had the following investments and maturities:

Investment Type	Fair Value	Maturity (in years)				No Stated Maturity Date
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years	
U.S. government and agency obligations	\$ 24,393,428	\$6,221,149	\$ 12,626,242	\$2,135,445	\$3,410,592	\$ -
U.S. Treasury notes	45,332,147	-	18,421,550	26,910,597	-	-
U.S. Treasury bonds	25,654,978	-	-	1,867,448	23,787,530	-
Municipals bonds	7,720,863	-	1,892,566	1,548,052	4,280,245	-
Mutual funds	13,535,720	-	-	-	-	13,535,720
Corporate obligations	74,603,504	2,167,129	34,042,319	23,970,131	14,423,925	-
Foreign bonds	8,310,176	-	4,754,927	3,555,249	-	-
Government obligations-foreign	53,410,099	10,712,776	17,666,669	7,040,966	17,989,688	-
Mortgage and asset-backed securities	71,333,097	-	2,617,750	4,415,327	64,300,020	-
Investment Loans	18,612,667	-	18,612,667	-	-	-
Totals	\$342,906,679	\$19,101,054	\$110,634,690	\$71,443,215	\$128,192,000	\$13,535,720

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, 2011 and 2010. The fair value of the underlying securities on loan secured by noncash collateral amounted to \$5,754,807 and \$3,437,795 at September 30, 2011 and 2010, 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.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2011 and 2010

3. Investments (continued)

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, 2011:

Currency	Cash Equivalents	Government Obligations Foreign	Foreign Bonds	Common Stock - Foreign	Total Exposure
Australian Dollar	\$ 38,925	\$ 11,816,171	\$ 2,064,364	\$ 2,139,136	\$ 16,058,596
Canadian Dollar	8,333	4,828,982	-	1,474,986	6,312,301
Danish Krone	34,484	-	-	3,210,135	3,244,619
Egyptian Pound	47	-	-	1,008,741	1,008,788
Euro Currency	10,579	6,658,688	7,457,741	25,664,513	39,791,521
Hong Kong Dollar	31,347	-	-	2,015,652	2,046,999
Japanese Yen	2,932	-	-	10,784,119	10,787,051
Mexican Peso	-	5,506,579	-	-	5,506,579
New Zealand Dollar	-	3,319,845	-	-	3,319,845
Norwegian Krone	20,449	3,534,758	-	491,322	4,046,529
Pound Sterling	22,233	12,878,105	2,050,883	11,876,714	26,827,935
Singapore Dollar	16,709	1,604,159	-	809,502	2,430,370
Swedish Krona	-	-	-	266,566	266,566
Swiss Franc	15,137	-	-	7,797,812	7,812,949
Thailand Baht	29,562	-	-	756,883	786,445
Totals	\$ 230,737	\$ 50,147,287	\$ 11,572,988	\$ 68,296,081	\$ 130,247,093

4. Securities Lending Transactions

The Government's statutes permit the System to participate in securities lending transactions, and the System has, via a securities lending authorization agreement (the agreement), authorized State Street Bank and Trust Company (the custodian) to lend securities to broker-dealers and banks pursuant to a form of loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. The System does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2011 or 2010 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.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2011 and 2010

As of September 30, 2011 and 2010, 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 2011 or 2010, 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, 2011 and 2010, such investment pool had a weighted average maturity of 13 days and 39 days, respectively, and an average expected maturity of 133 days and 149 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, 2011 and 2010, the fair value of securities on loan amounted to \$165,956,108 and \$183,873,238, 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 \$173,337,753 including \$166,343,091 of cash, and \$188,832,094 including \$170,919,350 of cash, as of September 30, 2011 and 2010, 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 \$792,122 and \$1,113,331 for the years ended September 30, 2011 and 2010, respectively, are reported in other investment income in the accompanying financial statements.

5. Reserved Assets

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

Reserved assets consist of the following:

	<u>2011</u>	<u>2010</u>
Cash	\$ 12,754	\$ 12,109
Certificates of deposit	3,947	3,884
Totals	<u>\$ 16,701</u>	<u>\$ 15,993</u>

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

**NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2011 and 2010**

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

At September 30, 2011 and 2010, the amount recorded as due from the Department of Finance of the Government and outside agencies of the Government consists of the following:

	<u>2011</u>	<u>2010</u>
Contributions and payroll withholding due from Department of Finance	\$ 8,519,308	\$ 4,739,461
Outside agencies	4,037,201	2,617,306
Totals	<u>\$12,556,509</u>	<u>\$ 7,356,767</u>

7. Line of Credit with Financial Institution

On October 2, 2006, the System entered into a loan agreement with Banco Popular de Puerto Rico (the Bank) to provide working capital to the System for its corporate purposes, to fund the system's required debt service, and to pay issuance and closing costs associated with this financing. This line of credit is a revolving credit facility with a maximum principal amount of \$25 million and accrues interest at a fixed rate of 6.25% calculated on a 360-day basis and is due and payable quarterly, commencing on the first day of the fourth calendar month following the closing of the loan. The line of credit facility is available to the System for a period up to three years, subject to annual renewals. 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 variable interest rate.

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.

8. Additional Pension Disclosures

(a) Plan Description

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

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2011 and 2010

(b) Funding Status and Funding Progress

As of September 30, 2011, the most recent actuarial valuation shows the plan was 46% funded. The Actuarial Accrued Liability (AAL) for benefits was \$ 3.0 billion and the actuarial value of assets was \$1.44 billion, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$1.72 billion. The covered payroll (projected annual payroll of active members covered by the plan) was \$403 million and the ratio of UAAL to the covered payroll was 426.08%.

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

(c) Actuarial Methods and Assumptions

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

8. Additional Pension Disclosures (continued)

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

Valuation date	September 30, 2006
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed group
Remaining amortization period	20 years
Asset valuation method	Actuarial value, but not less than 80% nor greater than 120% of market
Actuarial assumptions:	
Investment rate of return	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%

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Years Ended September 30, 2011 and 2010

9. Risks of Loss

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Claims against the System, Board of Trustees or any of its staff as a result of an actual or alleged breach of fiduciary duty are insured with a commercial insurance policy. Coverage provided is limited to \$5,000,000 with a deductible amount of \$100,000. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

10. Litigation

The System is a defendant in legal claims arising from its normal operations. It is management's opinion, after consulting with its legal counsel that losses, if any, resulting from these claims will not have a material effect on the System's financial position. The System is also a plaintiff in various class action suits, the outcomes are currently undeterminable.

11. Management Fees and Custodian Fees

The custodian and investment advisers of the System's investment fund are entitled to annual fees computed on the basis of the market value of the System's investment fund assets and reimbursement of out-of-pocket expenses incidental to custodial duties. Such fees amounted to \$4,906,189 and \$4,550,888 for the years ended September 30, 2011 and 2010, respectively.

12. Subsequent Events

(a) Loans to Government of the Virgin Islands

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

(b) Prior Years required GVI Contributions

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

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

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

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
September 30, 2011

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	1,421,093,035	1,236,571,529	2,657,664,564	53.47%	394,595,844	313.38%
2007(*****)	1,509,244,380	1,241,138,878	2,750,383,258	54.87%	419,161,255	296.10%
2008(*****)	1,530,604,789	1,310,218,726	2,840,823,515	53.88%	433,549,406	302.21%
2009(*****)	1,534,899,736	1,397,261,661	2,932,161,397	52.35%	458,154,309	304.98%
2010(*****)	1,505,970,212	1,513,059,673	3,019,029,885	52.53%	458,154,309	304.98%
2011(*****)	1,448,926,591	1,719,110,906	3,168,037,497	45.74%	403,473,988	426.08%

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.

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

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

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

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

(*****) Based on the financial information as of September 30, 2011 and the actuarial accrued liability was projected from the October 1, 2006 actuarial valuation assuming that actual experience during the October 1, 2006 to September 30, 2011 matched that assumed by the actuarial assumptions. Payroll was estimated based on reported contributions for the year.

Actuarial valuation up to September 30, 1998:

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

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

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

Actuarial accrued liability determined under the Entry Age Normal Method.

See accompanying independent auditors' report on required supplementary information.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
 September 30, 2011

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

*Estimated based on prior year's actuarial valuation.

**Estimated based on FY 2003 actuarial valuation

*** Estimated based on FY 2006 actuarial valuation

See accompanying independent auditors' report on required supplementary information.