

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended September 30, 2017

AND

INDEPENDENT AUDITOR'S REPORT

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended September 30, 2017

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Government Employees Retirement System of the Virgin Islands (the System), a component unit of the Government of the U.S. Virgin Islands, which comprise the statement of fiduciary net position as of September 30, 2017, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

As discussed in Note 10, certain investment properties held by the System sustained physical damages as a result of the hurricanes, which impacted the Territory in September 2017. These properties are reported in the financial statements of the System at their appraised values. The appraisals are based in part on the future income generation capacity of the properties. Updated appraisals have not been performed subsequent to the hurricanes. The System was unable to determine the adjustments, if any, that should be made to the appraised values of these properties.

The System's financial statements do not present the components of the pension liability for the year ended September 30, 2017, in accordance with accounting principles generally accepted in the United States of America. The total pension liability was not actuarially calculated as of September 30, 2017. As a result, we were unable to obtain sufficient information for proper disclosure of the total pension liability, and related disclosure requirements.

Qualified Opinion

In our opinion, based on our audit, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs above, the financial statements referred to above present fairly, in all material respects, the fiduciary net position and changes in fiduciary net position of the Government Employees Retirement System of the Virgin Islands as of September 30, 2017 and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the System is a component unit of the Government of the U.S. Virgin Islands for financial reporting purposes. The System's financial statements present the transactions that are attributable to the System. They do not purport to, and do not, present fairly the Government of the U.S. Virgin Island's overall financial position and results of operations as of and for the year ended September 30, 2017.

Other Matters

The financial statements include partial prior-year comparative information. Such information does not include all of the information required 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 fiscal year ended September 30, 2016, from which such partial information was derived.

We have previously audited the System's 2016 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the fiduciary activities and the proprietary activities in our report dated March 24, 2017. In our opinion, the partial comparative information presented herein as of and for the fiscal year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis on pages 4 through 9, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, as required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information on pages 30 through 33, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2018, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Bert Smith & Co

St. Croix, U.S. Virgin Islands
June 6, 2018

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS *Year Ended September 30, 2017*

This Management's Discussion and Analysis (MD&A) of the Government Employees Retirement System 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 Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements
- Required Supplementary Information

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

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

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

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

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Year Ended September 30, 2017

Fiduciary Net Position
 September 30, 2017
 (Dollar amounts expressed in thousands)

Fiduciary Net Position	2017	2016	Increase (Decrease)	%age
Cash, cash equivalents and investments	\$ 675,177	\$ 742,566	\$ (67,389)	(9.08%)
Member loans, net	99,783	127,700	(27,917)	(21.86%)
Real estate, net	79,749	72,268	7,481	10.35%
Other assets	50,185	18,110	32,075	177.11%
Total assets	904,894	960,644	(55,750)	(5.80%)
Stock lending transactions	19,478	24,032	(4,554)	(18.95%)
Other liabilities	39,946	19,450	20,495	105.38%
Total liabilities	59,424	43,482	15,941	36.66%
Total net position	\$ 845,470	\$ 917,162	\$ (71,692)	(7.82%)

At September 30, 2017 and 2016, the System's total assets were \$904.9 million and \$960.6 million, respectively. This decrease in total assets resulted mainly from the net effect of the following:

- The cash and cash equivalents increased by approximately \$89.4 million as of September 30, 2017 from approximately \$43.2 million as of September 30, 2016 to approximately \$132.6 million as of September 30, 2017. The cash and cash equivalents excluding interest bearing deposits are segregated as follows (*dollar amounts in thousands*):

	2017	2016	Increase (Decrease)
Cash in money market accounts	\$ 97,740	\$ 28,080	\$ 69,660
Cash in operational accounts	34,895	15,151	19,744
Total cash and cash equivalents	\$ 132,635	\$ 43,231	\$ 89,404

- At September 30, 2017, there was no interest bearing deposits with financial institutions as a result of management's decision to close all certificates of deposit accounts, except for Note 7 Reserved Assets.
- The increase in cash held in money market accounts of approximately \$69.7 million is the result of the System's need to have cash readily available to meet the Retiree payroll cost.

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) Year Ended September 30, 2017

- Cash, cash equivalents and investments decreased approximately \$67.4 million, which represented a 9.08% decrease over September 30, 2016. For the year ended September 30, 2017, the total return on the investment portfolio amounted to 7.9%. The following is also noted:
 - The invested cash collateral received under lending transactions, which is included in cash, cash equivalents and investments, decreased to approximately \$19.5 million as of September 30, 2017 from approximately \$24.0 million as of September 30, 2016. This decrease of \$4.6 million was offset by a comparable decrease in the liabilities section (payable for collateral received under securities lending). These securities lending transactions pay a predetermined interest rate with a significant covenant protecting the lender from exposure to loss. The change in the securities lending transactions is dependent on the securities loaned at year-end by the System's custodian.
 - The unsettled securities sold decreased \$276 thousand to approximately \$246 thousand as of September 30, 2017 from approximately \$521 thousand as of September 30, 2016.
 - The investment loans decreased approximately \$3.4 million to approximately \$27.9 million as of September 30, 2017 from approximately \$31.4 million as of September 30, 2016.
- The members' loans decreased \$28.3 million to approximately \$100.8 million as of September 30, 2017 from approximately \$129.1 million as of September 30, 2016. The 21.94% decrease was attributable primarily to the pay-down of member loans.
- The real estate increased to \$79.7 million which is net of depreciation.
- Total other assets increased by approximately \$32.1 million primarily due to the increase in outstanding payments due from the Central Government, and other government agencies.

At September 30, 2017, the System's total liabilities were \$59.4 million compared with \$43.5 million at September 30, 2016. The increase is primarily the net effect of:

- Payable for collateral received under securities lending transactions decreased by approximately \$4.6 million when compared to prior year. This decrease was offset by a comparable decrease in the assets section (cash collateral received under securities lending). The change in the securities lending transactions is dependent on the securities loaned at year-end by the System's custodian.
- Other liabilities which includes accrued expenses, increased by approximately \$24.2 million due to the System's inability to make payments because of the two category 5 hurricanes on September 6 and 19, 2017.

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Year Ended September 30, 2017

Comparison of 2017 and 2016 Additions, Deductions and Changes in Fiduciary Net Position

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

Additions, Deductions and Changes in Fiduciary Net Position	2017	2016	Increase (Decrease)	%age
Net appreciation in fair value of investments	\$ 55,811	\$ 57,226	\$ (1,415)	(2.47%)
Interest, dividends, and other	14,444	17,759	(3,315)	(18.67%)
Rental income, net	(307)	(1,073)	766	(71.39%)
Less investment management fees and custodian fees, borrowers' rebates and other agent fees on securities lending transactions, and other expenses	(2,547)	(2,918)	(371)	12.71%
Total investment income	67,401	70,994	(3,593)	(5.06%)
Total contribution income	132,728	127,806	4,922	3.85%
Other income	2,641	1,599	1,042	65.17%
Total additions	202,770	200,399	2,371	1.18%
Benefits paid directly to members	251,845	250,033	1,812	0.72%
Refunds of members' contributions	7,620	8,978	(1,358)	(15.13%)
Administrative and operational expenses	14,997	15,267	(270)	(1.77%)
Total deductions	274,462	274,278	184	0.07%
Net decrease	\$ (71,692)	\$ (73,879)	\$ (2,187)	(2.96%)

For the year ended September 30, 2017, operations resulted in a net decrease in the plan net assets of approximately \$71.7 million when compared to the net decrease of \$73.9 million for the year ended September 30, 2016. This change of \$2.2 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, 2017 was approximately \$55.8 million, reflecting a 2.47% decrease when compared to the \$57.2 million net appreciation reported for the year ended September 30, 2016. This change was primarily driven by a 7.90% return for the fiscal year 2017 versus an 8.2% return for the prior fiscal year.

Domestic common stock appreciation in fair value for the year ended September 30, 2017 was approximately \$28.5 million, reflecting an 87.28% increase compared to the \$15.2 million net appreciation reported for the year ended September 30, 2016. This was largely driven by domestic equity's return of 22.8% for the fiscal year 2017 versus a 13.5% return for the prior fiscal year. Increased confidence in growth resulting from sweeping policy proposals from the Trump administration, continued economic recovery, and low unemployment contributed to higher equity prices.

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Year Ended September 30, 2017

	2017	2016	Increase (Decrease)	%age
U.S. government and agency obligations	\$ (815,388)	\$ 495,604	\$ (1,310,992)	(264.52%)
Corporate obligations	(474,777)	870,117	(1,344,894)	(154.56%)
Common and preferred stock – U.S.	28,533,340	15,236,054	13,297,286	87.28%
Mortgage and asset-backed securities	(278,219)	47,361	(325,580)	(687.44%)
Commingled and mutual funds	40,507,200	43,877,603	(3,370,403)	(7.68%)
Real estate	8,324,076	-	8,324,076	100%
Real estate investment trust	101,020	584,690	(483,670)	(82.72%)
Limited partnership	(20,086,702)	(3,885,374)	(16,201,328)	(416.98%)
Totals	\$ 55,810,550	\$ 57,226,055	\$ (1,415,505)	(2.47%)

Commingled and mutual funds appreciation in fair value for the year ended September 30, 2017 was approximately \$40.5 million, reflecting a 7.68% decrease compared to the \$43.9 million net appreciation reported for the year ended September 30, 2016. Commingled funds are diversified across domestic equity and fixed income as well as international equity and fixed income. Strong fiscal year 2017 returns over fiscal year 2016 returns had a positive impact on the System's commingled assets.

Real estate appreciation in fair value for the year ended September 30, 2017 was approximately \$8.3 million. This was based on real estate investment appraisals.

Fixed income consists of U.S. Government and Agency, Corporate, and Mortgage and Asset-backed Securities. Fixed income net depreciation in fair value for the year ended September 30, 2017 was approximately \$1.6 million compared to the \$1.4 million net appreciation for the year ended September 30, 2016. This was largely driven by domestic fixed income's return of 0.0% for the fiscal year 2017 versus a 5.8% return for the prior fiscal year. Depressed returns resulting from higher yields and spreads were offset by positive coupon income:

- U.S. Government and Agencies – \$(815,388)
- Corporate – \$(475,777)
- Mortgage and Asset-backed – \$(278,219)

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, 2017, the asset allocation was out of line with the System's target. GERS management along with its Board of Trustees, under advisement from the financial advisors, has shifted to a dynamic asset allocation strategy to adjust the asset allocation in an effort to reduce the risk of the overall portfolio. The System will continue to review all investment programs and monitor the investment managers who are responsible for investing assets on the System's behalf.

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* *Year Ended September 30, 2017*

■ **Real Estate**

Total real estate decreased to \$7.1 million for the fiscal year ended September 30, 2017 compared to an approximate \$585 thousand for the fiscal year ended September 30, 2016.

■ **Interest, Dividends, and Other**

Total interest, dividends, and other decreased to approximately \$14.4 million for the year ended September 30, 2017 compared to approximately \$17.8 million for the year ended September 30, 2016. The decrease of \$3.3 million was due primarily to the net combination of the following factors: interest income decreased approximately \$2.4 million; and investment and dividend income decreased approximately \$0.9 million.

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

The Custodian and investment advisers of the System's investment fund are entitled to annual fees computed on the basis of the market value of the System's investment fund assets and for reimbursement of out-of-pocket expenses incidental to custodial duties. Such investment and other fees decreased to approximately \$2.5 million for the year ended September 30, 2017 from approximately \$2.9 million for the year ended September 30, 2016. The System's decline in asset level resulted in lower overall fees. All fees were based on asset values.

■ **Contribution Income**

Total contribution income increased by approximately 3.85% or \$4.9 million to \$132.7 million in fiscal year 2017 from \$127.8 million in fiscal year 2016. This was due primarily to the receipt of members retiring, which resulted in the payment of the employers' share of delinquent prior years contributions for those who had entered into retirement and a 1% increase to the active employee contribution %age rate. This is further reflected in an increase in benefits paid to members by approximately .72% or \$1.8 million over Fiscal 2016. Additionally, contributions refunded decreased by 15.13% or \$1.4 million over Fiscal 2016.

■ **Other Income**

Other income increased to \$2.6 million for fiscal year ended September 30, 2017 from approximately \$1.6 million dollars in fiscal year ended September 30, 2016.

■ **Benefits Paid Directly to Members**

Benefits paid directly to members increased to approximately \$251.8 million for the year ended September 30, 2017 from approximately \$250.0 million for the year ended September 30, 2016. This increase of .72% or \$1.8 million was due primarily to the net effect of annuities paid which include retro payments from prior periods; regular monthly annuity; duty connected disability; and death benefits.

■ **Administrative and Operational Expenses**

Administrative and operational expenses decreased by approximately \$300 thousand to approximately \$15 million for the year ended September 30, 2017 from \$15.3 million for the year ended September 30, 2016.

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2017

(With Comparative Totals for 2016)

	Year Ended September 30,	
	2017	2016
	Assets	
Cash and cash equivalents	\$ 132,635,408	\$ 43,231,140
Investments, at fair value (Note 5):		
U.S. government and agency obligations	14,094,742	17,771,121
Corporate obligations	27,432,278	23,464,908
Common stock – U.S.	108,900,465	143,554,443
Mortgage and asset-backed securities	29,922,506	29,768,666
Commingled and mutual funds	294,726,779	385,943,985
Unsettled securities sold	245,555	521,127
Cash collateral received under securities lending transactions (Note 6)	19,477,885	24,032,083
Investment loans	27,930,557	31,374,051
Real estate investment trust	3,006,766	2,725,794
Limited partnerships	16,804,117	40,178,846
Total cash, cash equivalents and investments	<u>675,177,058</u>	<u>742,566,164</u>
Member loans:		
Mortgage	7,014,392	7,737,700
Personal	93,709,909	121,268,590
Auto	28,849	65,076
	<u>100,753,150</u>	<u>129,071,366</u>
Less allowance for loans losses	<u>(969,889)</u>	<u>(1,371,814)</u>
	<u>99,783,261</u>	<u>127,699,552</u>
Real estate:		
Havensight Mall	41,000,000	41,000,000
Carambola NW- LLC	15,000,000	8,000,000
System Complex and Other Real Property	23,749,209	23,268,699
	<u>79,749,209</u>	<u>72,268,699</u>
Reserved assets	19,155	30,230
Due from other agencies of the Government of the U.S. Virgin Islands	45,246,663	13,566,176
Accrued interest receivable	1,745,202	1,693,998
Capital and other assets	3,173,047	2,819,452
Total assets	<u>904,893,595</u>	<u>960,644,279</u>
	Liabilities	
Retirement benefits in process of payment	611,341	4,269,034
Payable for collateral received under securities lending transactions (Note 6)	19,477,885	24,032,083
Unsettled securities purchased	685,714	761,993
Other liabilities	38,648,162	14,419,125
Total liabilities	<u>59,423,102</u>	<u>43,482,235</u>
Net position restricted for Pensions	<u>\$ 845,470,493</u>	<u>\$ 917,162,044</u>

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

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

SEPTEMBER 30, 2017

(With Comparative Totals for 2016)

	Year Ended September 30,	September 30,
	2017	2016
Additions:		
Investment income:		
Net appreciation in fair value of investments	\$ 55,810,550	\$ 57,226,055
Interest and dividends	14,093,238	17,204,627
Other investment income	350,907	554,549
Rental income - net of related expenses	<u>(306,673)</u>	<u>(1,073,346)</u>
	69,948,022	73,911,885
Less:		
Investment management fees and custodian fees	2,358,109	2,664,722
Borrowers' rebates and other agent fees on securities lending transactions	125,334	195,755
Other expenses	<u>63,218</u>	<u>57,473</u>
	<u>67,401,361</u>	<u>70,993,935</u>
Contributions:		
Employer	84,802,335	86,346,838
Employee	<u>47,925,193</u>	<u>41,459,511</u>
	<u>132,727,528</u>	<u>127,806,349</u>
Other income	<u>2,641,471</u>	<u>1,599,307</u>
Total additions	<u>202,770,360</u>	<u>200,399,591</u>
Deductions:		
Benefits paid directly to members	251,845,293	250,033,339
Refunds of members' contributions	7,619,585	8,977,829
Administrative and operational expenses	<u>14,997,033</u>	<u>15,267,630</u>
Total deductions	<u>274,461,911</u>	<u>274,278,798</u>
Net (decrease) in net position	(71,691,551)	(73,879,207)
Net position restricted for pensions:		
Net position beginning of year	917,162,044	991,041,251
Net position end of year	<u>\$ 845,470,493</u>	<u>\$ 917,162,044</u>

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

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2017

1. Description of the Plan

The Government Employees Retirement System of the Virgin Islands (the System) is a multiple employer defined benefit pension 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.

Eligibility and Membership: The Plan covers all employees of the Government of the U.S. Virgin Islands except casual, provisional, or any part time employee who does not regularly work at least 20 hours per week. The plan also covers employees whose services are compensated on a contractual fee or per diem basis who work exclusively for the Government at least 40 hours per week. Persons over the age of 55 may opt out of the Plan by providing formal notification to the plan. The Plan provides retirement, death, and disability benefits to plan members. Benefits may be extended to beneficiaries of plan members.

There are two tiers within the Plan:

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

Plan Membership at September 30, 2016 consisted of:

	<u>2016</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	8,520
Current employees	<u>9,499</u>
	<u>18,019</u>

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

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2017

1. Description of the Plan (*Continued*)

The semi-monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation for Tier I members is determined by averaging the five highest years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during such service. Average compensation for Tier II members is determined by averaging the most recent five years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during the service. The maximum annual salary that can be used in this computation is \$65,000, except for senators and judges, whose annual salary is used. The Board may set cost-of-living increases for annuitants and pensioners and determine when the annuity should be paid on the basis of the most recent actuarial valuation and the Consumer Price Index. The annual increase in the case of a disability annuity shall be 1 % per year prior to the member's attainment of age 60 and 1.5 % per year thereafter.

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

The contributions required to fund the System on an "actuarial reserve basis" are calculated periodically by the System's actuarial consultant. The actuarial valuation as of October 1, 2016 indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the costs of the System on an actuarial basis.

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

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 % age points.

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2017

1. Description of the Plan (*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, the total due of \$26,944,627 was collected. This represents the total amount due under the Act.

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

2. Summary of Significant Accounting Policies

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

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

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

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

The System's complex and other real property - St. Thomas/St. Croix real estate are carried at historical cost, net of accumulated depreciation and amortization on the portions of the facility which are occupied by the System. The sections of the complex that are rented are considered investment properties and are carried at their appraised values.

The carry value for Havensight Mall real estate is based on an independent appraisal as of March 2017. The value in this investment remained at \$41,000,000 at September 30, 2017.

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2017

2. Summary of Significant Accounting Policies (Continued)

The carrying value for Carambola NW-LLC d/b/a Renaissance St. Croix Carambola Beach Resort and Spa is based on an independent appraisal as of 2015. The value in this investment remained at \$15,000,000 at September 30, 2017.

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

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

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

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

Comparative Totals --- The financial statements include certain prior year's summarized comparative information. Such information does not include sufficient detail on reclassifications to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended September 30, 2016, from which the summarized information was derived.

Cash and Cash Equivalents

The cash and cash equivalents include the following:

	<u>2017</u>
Cash in money market accounts	\$ 97,740,024
Cash in operational accounts	<u>34,895,384</u>
Total cash and cash equivalents	<u>\$132,635,408</u>

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2017

3. Accounting Changes

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

4. Net Pension Liability

The components of the net pension liability (NPL) as of September 30, 2017 are shown below. The net pension liability was measured as of October 1, 2016, and the total pension liability was determined by an actuarial valuation as of that date:

Total pension liability	\$5,543,764,311
Plan fiduciary net position	917,162,043
Employers' net pension liability	<u>4,626,602,268</u>
Plan fiduciary net position as a %age of the total pension liability	16.54%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of October 1, 2016 using the following actuarial assumptions, applied to all periods included in the measurements:

- Inflation - 2.50%
- Salary increase - 3.25%, including inflation
- Investment rate of return - 3.20%, net of pension plan investment expense, including inflation

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

The total pension liability was determined using the level % of salary Entry Age Normal Cost funding method. The actuarial assumptions are the same as the assumptions used in the October 1, 2015 funding actuarial valuation. Actuarial valuation involves the projection of benefit payments contributions, and other amounts decades into the future. The System's Board adopted and approved the use of the assumptions and methods. These are the assumptions the actuary used to comply with GASB 67. Additional methods and assumptions used in the actuarial valuation for funding purposes are listed in the actuarial section of the report.

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

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2017

4. Net Pension Liability (Continued)

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation %age and by adding expected inflation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	29%	6.59%
International equity	12%	8.29%
Fixed income	27%	1.59%
Alternatives	30%	5.50%
Cash	<u>2%</u>	0.99%
Total	<u>100%</u>	

Discount rate: The discount rate used to measure the total pension liability was 3.20% as of September 30, 2016. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the increases in the employee contribution rates effective January 1, 2017. Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments of 7.0% was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by projected assets, the yield on a 20-year AA Municipal Bond Index was applied. As of September 30, 2016 that rate was 3.06%.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability calculated using the discount rate of 3.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-%age-point lower (2.20%) or 1-%age-point higher (4.20%) than the current rate:

	<u>1% Decrease (2.20%)</u>	<u>Current Discount (3.20%)</u>	<u>1% Increase (4.20%)</u>
Net pension liability	<u>\$5,410,383,502</u>	<u>\$4,626,602,268</u>	<u>\$3,983,605,992</u>

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS *Year Ended September 30, 2017*

5. Investments

(a) Marketable Securities

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

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

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

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2017

5. Investments (*continued*)

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

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

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

- Mutual funds of any corporation chartered under the laws of the United States, or any state, district, or territory thereof if listed on a national securities exchange;
- Real property purchased and/or developed by the board of trustees for sale for homeownership purposes;
- Loans to approved businesses by the Board of Trustees as alternative investments.

(b) Investment Loans

VI Property Tax Revenue Anticipation Note

On November 14, 2011, the System entered into a loan agreement with the Government of the U.S. Virgin Islands (GVI) in the amount of \$13,000,000 at an interest rate of 4.91% and a maturity date of December 15, 2016. The security for the note is the pledged real property tax receipts from the delinquent real property tax receivables, including penalties and interest for tax years prior to and including 2005 totaling approximately \$36,000,000. At September 30, 2017, the outstanding balance is \$2,420,459.

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2017

5. Investments (Continued)

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

KAZI Foods of the Virgin Islands Inc.

On September 24, 2013, the System entered into a loan agreement with KAZI Foods of the Virgin Islands, Inc. in the amount of \$6,000,000 at an interest rate of 6.25% and a maturity date of October 23, 2023. At September 30, 2017, the outstanding principal balance on the loan is \$4,276,614.

V.I. Finest Foods, LLC

On June 30, 2014, the System entered into a construction loan agreement with V.I. Finest Foods, LLC in the principal amount of up to \$8,205,989 at an interest rate of 6.4%, an interest only period of 17 months and a fully amortizing period of 103 consecutive months. The loan was subsequently modified on May 24, 2016 to provide an increase in the principal amount of the loan of an amount up to \$11,000,000, and extending the maturity date to March 31, 2025. At September 30, 2017, the outstanding principal balance on the loan is \$11,230,270.

Attilanus

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 outstanding balance at September 30, 2017 is \$ 10,000,000. The System received interest payments totaling \$473,750.

(c) Limited Partnership

The total value of the limited partnership investments at September 30, 2017 is as follows:

	<u>2017</u>
Mesirow	<u>\$16,804,117</u>

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

The fair value of the System's investments at September 30, 2017 amounted to \$523,063,766. The investments generated interest and dividend income of \$4,919,425 for the year ended September 2017.

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2017

5. Investments (Continued)

In addition, the net appreciation in fair value System's investments including gains and losses on investments bought and sold, as well as held during the year, totaled \$55,810,550 in fiscal year 2017, as listed below:

	<u>2017</u>
U.S. government and agency obligations	\$ (815,388)
Corporate obligations	(474,777)
Common and preferred stock - U.S.	28,533,340
Mortgage and asset-backed securities	(278,219)
Commingled and mutual funds	40,507,200
Real estate investment trust	101,020
Real estate	8,324,076
Limited partnership	<u>(20,086,702)</u>
Totals	<u>\$ 55,810,550</u>

(e) Custodial Credit Risk-Deposits

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

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

At September 30, 2017, all cash and cash equivalents were covered by federal deposit insurance, corporate surety bonds, or by collateral held by the System.

(f) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer of securities. The System's investment policy (the Investment Policy) establishes limitations on portfolio composition by investment type to limit its exposure to concentration of credit risk.

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

(g) Risk

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

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2017

5. Investments (Continued)

(h) Credit Risk

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

The fair value and credit ratings of debt securities (excluding U.S. government obligations and obligations expressly guaranteed by the U.S. government), money market funds, mutual funds, and other pooled investments of fixed income securities at September 30, 2017 include the following:

Standard & Poor's Credit Ratings:

	Fair Value	Credit Ratings
Corporate obligations	\$ 492,028	AAA
Corporate obligations	144,729	AA+
Corporate obligations	344,219	AA-
Corporate obligations	890,506	A
Corporate obligations	4,144,642	A-
Corporate obligations	7,112,666	BBB+
Corporate obligations	8,610,823	BBB
Corporate obligations	5,648,525	BBB-
Corporate obligations	44,140	Not Available
Investment loans	27,930,557	Not Rated
Mortgage and asset-backed securities	6,001,400	AAA
Mortgage and asset-backed securities	389,822	A-
Mortgage and asset-backed securities	23,531,284	Not Available
Commingled and mutual funds	294,726,779	Not Rated
Total	<u>\$ 380,012,120</u>	

Moody's Investor Services Credit Ratings:

	Fair Value	Credit Ratings
Corporate obligations	\$ 492,028	Aaa
Corporate obligations	144,729	Aa1
Corporate obligations	1,344,557	A1
Corporate obligations	826,212	A2
Corporate obligations	2,714,446	A3
Corporate obligations	7,209,284	Baa1
Corporate obligations	5,744,248	Baa2
Corporate obligations	8,912,634	Baa3
Corporate obligations	44,140	Not Available
Investment loans	27,930,557	Not Rated
Mortgage and asset-backed securities	8,245,424	Aaa
Mortgage and asset-backed securities	349,778	A1
Mortgage and asset-backed securities	20,196,042	Not Available
Mortgage and asset-backed securities	1,131,262	Not Rated
Commingled and mutual funds	294,726,779	Not Available
Total	<u>\$ 380,012,120</u>	

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2017

5. Investments (Continued)

Cash and cash equivalents and other investments at September 30, 2017 include the following:

	<u>Fair Value</u>	<u>Credit Ratings</u>	
		<u>Standard & Poor</u>	<u>Moody's</u>
Cash and cash equivalents	\$ 97,740,024	Not Rated	Not Rated
Common stock - U.S.	108,900,465	Not Rated	Not Rated
Real estate investment trust	3,006,766	Not Rated	Not Available
U.S. government & agency obligations	591,751	AA+	Aaa
U.S. treasury bonds	6,586,199	Not Available	Aaa
U.S. treasury notes	5,823,798	Not Available	Aaa
Municipal bonds	484,754	AAA	Aaa
Municipal bonds	548,039	AA	Aa2
Municipal bonds	60,201	A	A1
Limited partnership	16,804,117	Not Rated	Not Rated
Total cash, cash equivalents and other investments	<u>\$ 240,546,114</u>		

The total System's cash, cash equivalents and investment securities at September 30, 2017 consists of:

Fixed income investments	\$ 380,012,120
Cash, cash equivalents, and other Investments	240,546,114
	<u>\$ 620,558,234</u>
Cash and cash equivalents Investments, at fair value	\$ 97,740,024
	522,818,210
	<u>\$ 620,558,234</u>

(i) Interest Rate Risk

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

As of September 30, 2017, the System had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (in years)</u>				
		<u>Less Than 1 Year</u>	<u>1 to 5 Years</u>	<u>6 to 10 Years</u>	<u>More Than 10 Years</u>	<u>No Stated Maturity Date</u>
U.S. government and agency obligations	\$ 591,751	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. treasury notes	5,823,798	-	4,540,154	1,283,644	-	-
U.S. treasury bonds	6,586,199	-	2,013,159	-	4,573,040	-
Municipals bonds	1,092,994	60,201	-	1,032,793	-	-
Commingled mutual funds	294,726,779	-	-	-	-	294,726,779
Corporate obligations	27,432,278	44,140	13,212,186	7,493,435	6,682,517	-
Mortgage and asset-backed securities	29,922,506	-	6,133,817	1,946,806	21,841,883	-
Investment Loans	27,930,557	10,000,000	3,619,066	14,311,491	-	-
Totals	<u>\$397,106,862</u>	<u>\$10,104,341</u>	<u>\$30,110,133</u>	<u>\$ 26,068,169</u>	<u>\$33,097,440</u>	<u>\$294,726,779</u>

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2017

5. Investments (*Continued*)

(j) *Custodial Credit Risk - Investments*

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. With the exception of underlying securities on loans secured by noncash collateral, the System's entire investment portfolio was held with a single third-party custodian in the System's name as of September 30, 2017. At September 30, 2017, the System had no underlying securities on loan secured by noncash collateral.

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

(k) *Forward Currency Exchange Contracts*

The System enters into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates and to facilitate the settlement of foreign security transactions. A forward contract is an agreement to buy or sell a specific amount of currency at a specific delivery or maturity date for an agreed upon price. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contracts. Changes in the market value of open and closed forward contracts are recorded within interest, dividends, and other income in the statement of changes in plan net position. During the year ended September 30, 2017, the System did not engage in any forward currency exchange contracts

(l) *Fair Value Measurements*

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

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

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

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2017

5. Investments (Continued)

The System had the following recurring fair value measurements as of September 30, 2017:

	<u>9/30/2017</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Investments by fair value level				
Debt securities				
Government agency obligations	\$ 13,001,747	\$ -	\$13,001,747	\$ -
Municipal obligations	1,092,994	-	1,092,994	-
Corporate bond	27,432,278	-	27,432,238	40
Assets-backed securities	6,686,951	-	6,686,951	-
Collateralized mortgage obligations	821,941	-	821,941	-
Commercial mortgage-backed securities	5,687,383	-	5,687,383	-
Residential mortgage-backed securities	16,726,231	-	16,726,231	-
Total debt securities	71,449,525	-	71,449,486	40
Equity securities				
Consumer goods	24,146,348	24,146,348	-	-
Energy	3,713,085	3,713,085	-	-
Financials	23,440,309	23,440,309	-	-
Health care	11,070,211	11,070,211	-	-
Industrials	16,895,391	16,895,391	-	-
Information technology	22,973,738	22,973,738	-	-
Materials	2,975,146	2,975,146	-	-
Real estate/construction	3,006,766	3,006,766	-	-
Telecommunication services	2,138,602	2,138,602	-	-
Utilities	1,547,635	1,547,635	-	-
Total equity securities	111,907,231	111,907,231	-	-
Limited partnership-private equity fund of funds	16,804,117	-	-	16,804,117
Private debt-direct lending/other investments	127,713,818	-	-	127,713,818
Real estate/other real assets	79,749,209	-	-	79,749,209
Total other investments	224,267,144	-	-	224,267,144
Total investments by fair value level	407,623,900	\$ 111,907,231	\$71,449,486	217,267,184
Investments measured at net assets value (NAV)				
Commingled equity funds	174,928,575			
Commingled bond funds	119,798,204			
Securities lending collateral fund	19,477,885			
Total investments measured at the NAV	314,204,664			
Short-term investments	132,635,408			
Total investments measured at fair value	\$ 854,463,972			

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

Investments measured at net assets value (NAV)	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled equity funds	\$ 174,928,575	\$ -	Daily, Semi-Monthly	None
Commingled bond funds	119,798,204	-	Daily	1 – 15 days
Securities lending collateral fund	19,477,885	-	Daily	2 – 10 days
Total investments measured at the NAV	\$ 314,204,664	\$ -		

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2017

5. Investments (*Continued*)

Commingled equity and bond funds. This type includes nine commingled funds that invest in publicly traded domestic & global stocks, and domestic & global fixed income securities. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments. Of the total commingled funds, \$251,100,241 of the assets can be liquidated on a daily basis and \$43,626,538 can be liquidated on a semi-monthly basis with 8-15 days' notice. All of the underlying securities within the commingled funds carry a recurring fair value measurement level of 1 or 2. There are no unfunded commitments to commingled funds at September 30, 2017.

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

(m) *Member Loans*

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

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

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

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

The System's investments in member loans, net of allowances for loan losses, at September 30, 2017 were \$99,783,261. Such investments in member loans generated interest income of \$9,155,272 for the year ended September 30, 2017. The average interest rate was 8% for the year ended September 2017.

The loan program was suspended in August 2015.

(n) *Real Estate*

The investment in the Havensight Mall has an appraised value of \$41,000,000 as of September 30, 2017.

The investment in Carambola NW-LLC d/b/a Renaissance St. Croix Carambola Beach Resort and Spa appraised value is \$15,000,000 for the year ended September 30, 2017.

The System's appraised value of land is \$8,727,159 for the year ended September 30, 2017.

Rental Income net of related expenses generated a net loss of \$306,673 for the year ended September 30, 2017.

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2017

5. Investments (Continued)

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

The investment in the System Facilities --- St. Thomas/St. Croix as of September 30, 2017 is as follows:

	<u>2017</u>
Land	\$ 8,727,159
Building, improvements, and fixtures	19,923,535
	<u>28,650,694</u>
Less: accumulated depreciation and amortization	6,202,658
Totals	<u>\$ 22,448,036</u>

6. Securities Lending Transactions

The Government's statutes permit the System to participate in securities lending transactions, and the System has, via a securities lending authorization agreement (the agreement), authorized State Street Bank and Trust Company (the custodian) to lend securities to broker-dealers and banks pursuant to a form of loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. The System does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2017 as to the amount of loans the custodian can make on behalf of the System.

Loans are generally terminable on demand. The collateral received shall (i) in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the loaned securities, (ii) in the case of loaned securities which are not denominated in the U.S. dollars or whose primary trading market is not located in the United States, have a market value of 105% of the market value of the loaned securities, or (iii) have a higher value as may be applicable in the jurisdiction in which the loaned securities are customarily traded. Such collateral should be kept, at a minimum, at 100% of the market value of the security for all borrowers throughout the outstanding period of the loans.

As of September 30, 2017, 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.

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2017

6. Securities Lending Transactions (Continued)

There were no such violations during the fiscal year 2017, 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, 2017, such investment pool had a weighted average maturity and average expected maturity of 39 days and 78 days respectively. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. As of September 30, 2017, the fair value of securities on loan amounted to \$26,510,008, 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 \$27,255,108 including \$19,477,885 of cash, as of September 30, 2017. Investments made with cash collateral are reported as an asset of the System with a corresponding liability in the accompanying statement of fiduciary net position.

The following represents the balances relating to the securities lending transactions as of September 30, 2017:

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Cash Collateral Investment Value</u>	<u>Securities Collateral Investment Value</u>
Lent for Cash Collateral:			
U.S. government and agency obligations	\$ 817,121	\$ 833,610	\$ -
Corporate bonds	960,209	980,075	-
Common and preferred stocks	17,107,819	17,664,200	-
Lent for Securities Collateral:			
U.S. government and agency obligations	683,536	-	697,569
Corporate bonds	-	-	-
Common and preferred stocks	6,941,323	-	7,079,654
Totals	<u>\$ 26,510,008</u>	<u>\$ 19,477,885</u>	<u>\$ 7,777,223</u>

7. Reserved Assets

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

Reserved assets consist of the following:

	<u>2017</u>
Cash	\$ 15,079
Certificates of deposit	4,076
Totals	<u>\$ 19,155</u>

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

NOTES TO FINANCIAL STATEMENTS *Year Ended September 30, 2017*

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

At September 30, 2017, the amount recorded as due from Agencies of the Government of the U.S. Virgin Islands was \$45,246,663. Included in the amount due from Agencies of the Government of the U.S. Virgin Islands is an estimated material amount owed by one Agency.

9. Internal Revenue Matching Fund

On December 19, 2013 Pursuant to Act No. 7261 Section 13 (Bill No. 29-0123) and enabling legislation, the System should have received \$7,000,000 per year from the Internal Revenue Matching Fund. In 2017 the System received \$1,800,000 which was applied as Employer Contributions.

10. Risks of Loss

Certain real estate holdings discussed in Note 5(n) in the financial statements were impacted by hurricanes Maria and Irma. Damages were suffered by Havensight Mall, Carambola Beach Resort and Spa, and the System facilities. The System believes that there is adequate insurance to cover the repairs that will be required subsequent to the fiscal year-end. The System incurred repair costs and expects loss of future revenue due to the overall drop in tourism and expected decline in the economy. The appraised values of these properties are substantially based on income generation. The System has not determined the extent of the repairs that will be made to both Havensight Mall and Carambola Beach Resort and Spa. Estimates for repairing the physical damage range from \$8.8 million to \$14.5 million. Both properties are fully operational. The System believes that any loss will be fully covered by existing insurance.

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

11. Litigation

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

12. Management Fees and Custodian Fees

The custodian and investment advisers of the System's investment fund are entitled to annual fees computed on the basis of the market value of the System's investment fund assets and reimbursement of out-of-pocket expenses incidental to custodial duties. Such fees amounted to \$2,358,109 for the year ended September 30, 2017.

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2016

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

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

Fiscal Year Ended September 30:	2016	2015	2014
Total Pension Liability			
Service Cost	\$ 87,734,650	\$ 69,262,969	\$ 65,274,936
Interest on the Total Pension Liability	192,803,756	184,451,782	191,113,749
Benefit Changes	(48,588,579)	-	(40,421,809)
Differences between Actual and Expected Experience	76,689,946	98,193,233	35,917,905
Changes of Assumptions	431,433,618	731,994,972	241,527,329
Benefit Payments and Refunds	(259,011,168)	(250,110,255)	(247,069,503)
Net Change in Total Pension Liability	481,062,223	833,792,701	246,342,607
Total Pension Liability – Beginning	5,062,702,088	4,228,909,387	3,982,566,780
Total Pension Liability – Ending (a)	\$5,543,764,311	\$5,062,702,088	\$4,228,909,387
Plan Fiduciary Net Position			
Contributions – Employer	\$ 86,346,838	\$ 72,287,934	\$ 68,298,617
Contributions – Member	41,459,511	36,245,015	34,020,107
Net Investment Income	70,993,934	(4,932,398)	60,326,921
Benefit Payments and Refunds	(259,011,168)	(250,110,255)	(247,069,503)
Administrative Expense	(15,267,630)	(16,401,722)	(18,867,491)
Other	1,599,307	1,161,302	3,573,611
Net Change In Plan Fiduciary Net Position	(73,879,208)	(161,750,124)	(99,717,738)
Plan Fiduciary Net Position – Beginning	991,041,251	1,152,791,375	1,252,509,113
Plan Fiduciary Net Position – Ending (B)	917,162,043	991,041,251	1,152,791,375
Net Pension Liability – Ending (A) – (B)	\$4,626,602,268	\$4,071,660,837	\$3,076,118,012
Plan Fiduciary Net Position as a %age of the Total Pension	16.54%	19.58%	27.03%
Covered Employee Payroll	\$ 393,771,228*	\$ 368,023,518*	\$ 355,603,633*
Net Pension Liability as a %age of Covered Employee Payroll	1,174.95%	1,106.36%	865.04%

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

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

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

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2016

Notes to Schedule

Benefits Provided: There were changes to the eligibility and benefit amounts for Tier 2 Regular and Public Safety Employees for service and Early pensions reflected in this valuation.

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

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

In the year ended September 30, 2016, amounts reported as changes in assumptions resulted from a decrease in the discount rate used to measure the total pension liability from 3.84% as of September 30, 2015 to 3.20% as of September 30, 2016.

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS – LAST TEN FISCAL YEARS

Fiscal Year Ended September 30	Actuarially Determined Contributions	Actual Contributions	Contribution Deficiency (Excess)	Covered Payroll	%age Contributed
2007	137,797,268	60,778,382	77,018,886	394,595,844	15.40%
2008*	138,488,871	75,871,146	62,617,725	419,161,255	18.10%
2009*	147,490,851	80,177,004	67,313,847	433,549,406	18.49%
2010*	157,817,709	77,004,630	80,813,079	458,154,309	16.81%
2011*	162,841,336	80,849,762	81,991,574	440,026,457	18.37%
2012	178,644,349	66,677,155	111,967,194	403,473,988	16.53%
2013*	172,439,842	64,431,322	108,008,520	381,012,309	16.91%
2014	189,715,251	68,298,617	121,416,634	370,131,865	18.45%
2015	200,089,791	72,287,934	127,801,857	355,603,633	20.33%
2016	247,158,137	86,346,838	160,811,299	363,023,518	23.46%

**Estimated based on prior year's actuarial valuation*

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Notes to Schedule of Employer Contributions

Valuation date	Actuarially determined contributions are calculated as of October 1, 2016
Methods and assumptions need to determine contribution rates:	
Actuarial cost method	Entry Age Normal Cost Method determined as a %age of salary
Amortization method	Level dollar, closed group
Amortization period	20 years open amortization
Asset valuation method	Market value
Inflation	2.50%
Salary Increases	3.25% per year
Investment Rate of Return	3.2% net of pension plan investment expense, including inflation
Retirement Age	70
Mortality	Non-annuitant: 110% of the RP-2014 Blue Collar Employee Mortality Table with generational projection from 2015 using Scale MP-2015. Healthy annuitant: 110% of the RP-2014 Blue Collar Healthy Annuitant Mortality Table with generational projection from 2015 using Scale MP-2015. Disabled annuitant: 125% of the RP-2014 Disabled Annuitant Mortality Table with generational projection from 2015 using Scale MP-2015