Financial Statements and
OMB Circular A-133 Report on
Federal Financial Assistance Programs

viNGN, INC. d/b/a Virgin Islands Next Generation Network
Year Ended September 30, 2014
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

viNGN, INC. d/b/a Virgin Islands Next Generation Network

Financial Statements and
OMB Circular A-133 Report on
Federal Financial Assistance Programs

Year Ended September 30, 2014

Contents

Financial Statements

Building a better working world

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Report of Independent Auditors

The Board of Directors
viNGN, INC. d/b/a Virgin Islands Next Generation Network

Report on the Financial Statements

We have audited the accompanying financial statements of viNGN, INC. d/b/a Virgin Islands Next Generation Network (the Company), a blended component unit of the Virgin Islands Public Finance Authority, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements 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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 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 of 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of viNGN, INC. d/b/a Virgin Islands Next Generation Network at September 30, 2014, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

Accounting principles generally accepted in the United States require that management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, 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 financial statements, and other knowledge we obtained during our audit of the 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 30, 2015, on our consideration of the Company'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 the 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 Company's internal control over financial reporting and compliance.

Ernst + Young LLP

June 30, 2015

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The Management and Board of Directors of viNGN, INC. d/b/a Virgin Islands Next Generation Network (viNGN or the Company) are pleased to present the following discussion and analysis of the Company's financial performance for the fiscal year ended September 30, 2014.

This information should be read in conjunction with the Company's financial statements, which follow this section.

Reporting Entity

The viNGN, INC. d/b/a Virgin Islands Next Generation Network was incorporated on October 22, 2010, and its articles of incorporation were duly filed with the Office of the Lieutenant Governor of the US Virgin Islands on October 12, 2010.

The main purpose of viNGN is to design, develop, engineer, construct and manage a middle mile wholesale fiber optic network in order to provide reliable high speed internet connections at affordable prices and equal terms to all retail internet service providers and public infrastructure stewards, who will in turn provide such services to residents, businesses and the Government of the Virgin Islands and thereby facilitating distance learning, online training, and technical support to citizens of all ages and socioeconomic levels; to establish telework support centers; to establish public computer centers; to provide the internet infrastructure for expanded communication for public safety and medical health records and telemedicine for health facilities; to provide the internet infrastructure to foster retention of jobs and businesses in the Territory and to attract new businesses; to provide training to the public on the uses and advantages of these broadband capabilities; to coordinate the deployment of fiber strands with the electric power smart grid plan; and to reinvest a part of the proceeds from such activities to sustain and support the continuation of the foregoing activities and other authorized purposes of the Company.

The Broadband Technology Opportunities Program (BTOP) is a national competitive grant program, funded through the American Recovery and Reinvestment Act (ARRA) and administered by the National Telecommunications and Information Administration (NTIA) within the US Department of Commerce, which is intended to accelerate broadband deployment in unserved and underserved areas, supporting strategic institutions that are likely to create jobs or provide significant public benefit.

Reporting Entity (continued)

The Virgin Island Public Finance Authority (PFA) through its Office of Economic Opportunity (OEO) applied for and was awarded four (4) broadband grants through the NTIA under or in connection with the BTOP which are being carried out by viNGN as subrecipient.

The total amount of ARRA funding available to viNGN is approximately $67.4 million, which is supplemented by an additional $31.9 million in local funds raised by the PFA.

Using the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Company's basic financial statements. The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, and the Notes to Financial Statements presented on pages 8 through 18 provide information about the activities of the Company as a whole.

The Statement of Net Position presents information on all of the Company's assets and liabilities, with the difference between the two reported as net position. The Statement of Revenues, Expenses and Changes in Net Position provides information showing how the Company's net position changed during the fiscal year. The Notes to Financial Statements provide additional information regarding the financial statements.

Financial Highlights

The total assets of the Company amounted to $88,494,103 at September 30, 2014, of which $85,885,308, net of $4,906,917, *Accumulated depreciation and amortization*, were capital assets with a net book value of $80,978,391. These assets include an IRU or Indefeasible Right of Use that allows the Company to use undersea cables owned by a third-party for a period of 15 years. The IRU has a gross value of $8,064,000 and has been amortized during FY2014 by $537,600. Assets under construction were booked at a value of $17,801,538. Total liabilities amounted to $36,785,327 at September 30, 2014, of which $31,722,383 were loans outstanding to the PFA and $5,062,944 were for other liabilities. The total assets of the Company exceeded its total liabilities as of September 30, 2014 by $51,708,776 (net position).

Analysis of Overall Financial Position and Change in Net Position

Following is a condensed financial overview of the Company as of September 30, 2014 and 2013:

Condensed statement of net position	**2014**	**2013**
Assets		
Current and other assets	**$ 7,515,712**	$ 15,519,230
Construction in progress	**18,747,305**	42,052,631
Property and equipment	**62,231,086**	9,546,746
Total assets	**88,494,103**	67,118,607
Liabilities		
Current liabilities	**5,062,944**	5,803,973
Long-term debt outstanding	**31,722,383**	30,765,266
Total liabilities	**36,785,327**	36,569,239
Net position	**$ 51,708,776**	$ 30,549,368

Condensed statement of revenues, expenses and changes in net position	**2014**	**2013**
Operating revenues	**$ 38,084**	$ –
Operating expenses	**(9,265,059)**	(6,569,770)
Operating loss	**(9,226,975)**	(6,569,770)
Non-operating revenues	**4,399,756**	7,529,983
Capital and other contributions	**15,509,366**	25,889,230
In-kind contribution	**10,477,261**	–
Change in net position	**$ 21,159,408**	$ 26,849,443

Operations

During fiscal year 2014, the Company continued its operations and entered into several agreements with engineering and architectural firms, contractors, consultants, equipment suppliers and material suppliers to continue designing the network, acquire the necessary materials to build the network, apply for the necessary permits, acquire its own IT equipment as well as telecommunication equipment for the network.

Capital Assets

Property and equipment consist mainly of heavy construction equipment, servers, IT equipment, leasehold improvements and intangible assets.

The intangible assets consist of an Indefeasible Right of Use (IRU) agreement that allows the Company to use existing undersea fiber, between St. Croix and Miami and between St. Croix and Manhattan. The agreement has a 15-year term and the rights to use the fiber were acquired for $8,064,000.

Property and equipment consist mainly of heavy construction equipment, fiber, servers, IT equipment, leasehold improvements and intangible assets that amounted to $67,138,004 with a net book value of $62,231,086 net of $4,906,917 accumulated depreciation and amortization.

Construction in process includes all materials that would be used for the construction of the network and stored in warehouses on St. Thomas and St. Croix, as well as certain telecommunication equipment located in Florida for testing purposes that were subsequently moved to the Company's warehouses. It also includes materials that will be used in the construction of two undersea cables between St. Croix and St. Thomas. This construction in process amounted to $18,747,305 as of September 30, 2014.

Advance Payable to PFA

As of September 30, 2014, the Company owed PFA $31,722,383. These funds have been provided by PFA to viNGN directly or have been used to pay invoices on behalf of viNGN. No repayment schedule or any covenants have been established regarding this advance payable to PFA. viNGN is not paying any interest on this payable and no specified repayment terms have been stablished.

Subsequent Events

Several matters occurred after the Company's September 30, 2014 fiscal year end that had a significant impact in the Company's operations.

In January 2015, NTIA, the U.S. OMB, and NOAA approved a no-cost close-out extension of VIPFA/viNGN's CCI, PCC, and SBA grants through March 31, 2015. For the CCI grant, this provided additional time through March 31, 2015 to complete all network connections and network testing activities. The extension also provided additional time to complete the project by allowing reimbursement requests through March 31, 2015.

In December 2014, VIPFA advanced an additional $2.5 million to viNGN for continued build out of the network and for continued operational costs.

In March 2015, VIPFA changed most of the members of the Board of Directors of viNGN and a new Chief Executive Officer/President was appointed.

Contacting the Company

This financial report is designed to provide users with a general overview of the Company's finances. If you have questions about this report or need additional financial information, contact the Company:

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9015 Havensight Mall, Suite 7
St. Thomas, VI 00802
(340) 715-8581

viNGN, INC. d/b/a Virgin Islands Next Generation Network
(A Component Unit of the Virgin Islands Public Finance Authority)

Statement of Net Position

September 30, 2014

Assets	
Current assets:	
Cash and cash equivalents	$ 5,300,301
Federal grants receivable	1,976,806
Other receivables	34,213
Prepaid expenses and other current assets	204,392
Total current assets	7,515,712
Capital assets:	
Property and equipment	62,231,086
Construction in progress	18,747,305
Total capital assets	80,978,391
Total assets	$ 88,494,103
Liabilities	
Current liabilities:	
Accounts payable, accrued expenses and other current liabilities	$ 5,062,944
Total current liabilities	5,062,944
Advance payable to Public Finance Authority	31,722,383
Total liabilities	36,785,327
Net position (deficit)	
Net investment in capital assets	59,233,059
Unrestricted deficit	(7,524,283)
Total net position	$ 51,708,776

See accompanying notes.

viNGN, INC. d/b/a Virgin Islands Next Generation Network
(A Component Unit of the Virgin Islands Public Finance Authority)

Statement of Revenues Expenses and Changes in Net Position

Year Ended September 30, 2014

Operating expenses	$ 38,084
Operating expenses:	
General and administrative expenses	6,637,289
Depreciation and amortization	2,627,770
Total operating expenses	9,265,059
Operating loss	(9,226,975)
Non-operating revenues:	
Federal grants	4,388,820
Interest income	10,936
Operating income (expenses)	2,274
Total non-operating revenues	4,402,030
Income before contributions	(4,824,945)
Capital contributions from federal grants	15,509,366
In-kind contribution	10,474,987
Change in net position	21,159,408
Net position at beginning of year	30,549,368
Net position at end of year	$ 51,708,776

See accompanying notes.

viNGN, INC. d/b/a Virgin Islands Next Generation Network
(A Component Unit of the Virgin Islands Public Finance Authority)

Statement of Cash Flows

Year Ended September 30, 2014

Operating activities	
Operating revenues	$ 3,871
Cash paid to suppliers and employees, net of capitalized expenses	(7,271,921)
Net cash used in operating activities	(7,268,050)
Non-capital and related financing activities	
Proceeds from Federal grants (operating)	4,388,820
Net cash provided by non-capital and related financing activities	4,388,820
Capital and related financing activities	
Proceeds from PFA (capital assets)	957,117
Proceeds from federal grants (capital)	23,409,021
Acquisition of capital assets	(21,529,523)
Net cash provided by capital and related financing activities	2,836,615
Investing activities	
Interest income	10,936
Net cash provided by investing activities	10,936
Change in cash and cash equivalents	(31,679)
Cash and cash equivalents at beginning of year	5,331,980
Cash and cash equivalents at end of year	$ 5,300,301

(continued)

viNGN, INC. d/b/a Virgin Islands Next Generation Network
(A Component Unit of the Virgin Islands Public Finance Authority)

Statement of Cash Flows (continued)

Year Ended September 30, 2014

Reconciliation of loss from operations to net cash used in operating activities	
Loss from operations	$ (9,226,975)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation and amortization	2,627,770
Changes in operating assets and liabilities increase (decrease) cash:	(34,213)
Prepaid expenses and other current assets	106,397
Accounts payable	23,618
Accrued expenses and other current liabilities	(764,647)
Total adjustments	1,958,925
Net cash used in operating activities	$ (7,268,050)

See accompanying notes.

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

viNGN, INC. d/b/a Virgin Islands Next Generation Network (viNGN or the Company), incorporated in the United States Virgin Islands, is owned by the Government of the U.S. Virgin Islands (the Government) through the Virgin Islands Public Finance Authority (PFA). The main purpose of viNGN is to design, develop, engineer, construct and manage a middle mile wholesale fiber optic network in order to provide reliable high speed internet connections at affordable prices and equal terms to all retail internet service providers and public infrastructure stewards who will in turn provide such services to residents, businesses and the Government thereby facilitating distance learning, online training, and technical support to citizens of all ages and socioeconomic levels; to establish telework support centers; to establish public computer centers; to provide the internet infrastructure for expanded communication for public safety and medical health records and telemedicine for health facilities; to provide the internet infrastructure to foster retention of jobs and businesses in the in the U.S. Virgin Islands and to attract new businesses; to provide training to the public on the uses and advantages of these broadband capabilities; to coordinate the deployment of fiber strands with the electric power smart grid plan; and to reinvest a part of the proceeds from such activities to sustain and support the continuation of the foregoing activities and other authorized purposes of the Company.

The Company is exempt from the payment of property or income taxes in the U.S. Virgin Islands.

Summary of Significant Accounting Policies

Basis of Accounting

The accounting and reporting policies of the Company conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB). The Company follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB,* and AICPA pronouncement effective October 1, 2012. The Company functions as an enterprise fund and maintains its accounting records on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Basic Financial Statements

Standards for external financial reporting for state and local governments require that resources be classified for accounting and reporting purposes into net position categories and to report the changes in net position. Net position represents the residual interest in the Company's assets after liabilities are deducted and consist of the following categories:

- *Net investment in capital assets:* Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The portion of debt attributed to the unspent debt proceeds is included in the same net position component as the unspent proceeds.

- *Restricted:* These result when constraints, on the use of net position, are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted:* Net position that is not subject to externally imposed stipulations.

The Company distinguishes operating revenues and expenses from non-operating items. Operation revenues and expenses generally result from providing services in connection with the Company's principal ongoing operations. The principal operating revenues of the Company are charges to customers for fees. Operating expenses for the Company's include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Company's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

The Company considers non-negotiable certificates of deposit and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents in the accompanying statement of position. As of September 30, 2014, viNGN did not own any certificates of deposit.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Use of Estimates

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Grants and Contributions from Federal Government

The Company receives federal government grants mainly to support the construction of its fiber optic network. The assets and revenues arising from federal government grants are recorded when the Company meets the eligibility requirements. Grants for capital projects are reported as other revenues.

Federal Grants Receivable

Federal grants receivable consists of amounts due from federal government agencies, based on the terms of the related grant agreements. Management periodically reviews the status of all grants receivable for collectability. Each balance is assessed based on management’s knowledge of and relationship with the federal government agency and the age of the receivable balance. As a result of these reviews, balances deemed to be uncollectible are charged directly to uncollected grants expense. No allowance for doubtful account charges were recorded for the year ended September 30, 2014.

Capital Assets

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful life of the asset. Assets with costs above $500 and useful life of at least one year are capitalized. Expenses for maintenance, repairs, and renewals are charged to expense as incurred, whereas major improvements are capitalized as additions to property and equipment.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Accounting for Impairment of Long-Lived Assets

The Company, following the guidance of GASB Statement No. 42, *Accounting and Financial Reporting of Capital Assets and for Insurance Recoveries, and amendment to GASB Statement No. 34*, assesses the recoverability of the carrying values of its capital assets for possible impairments whenever events or changes in circumstances indicate that the carrying amount of asset may be impaired.

2. Capital Assets

Capital assets at September 30, 2014, are as follows:

	Useful Lives (in years)	Balance 9/30/2013	Additions	Disposals	Transfers	Balance 9/30/2014
Personal property and equipment	3-25	$ 1,001,921	**$ –**	**$ (122,898)**	**$ 44,929,652**	**$ 45,808,675**
Buildings and buildings improvements	5-40	370,554	**30,056**	**–**	**–**	**400,610**
Intangible assets	2-15	10,453,731	**10,474,987**	**–**	**–**	**20,928,718**
Total		11,826,206	**10,505,043**	**(122,898)**	**44,929,652**	**67,138,003**
Less accumulated depreciation and amortization		(2,279,460)	**(2,627,457)**	**–**	**–**	**(4,906,917)**
		9,546,746	**7,877,586**	**(122,898)**	**44,929,652**	**62,231,086**
Assets under construction		41,106,864	**21,624,326**	**–**	**(44,929,652)**	**17,801,538**
Assets idle in warehouse		945,767	**–**	**–**	**–**	**945,767**
Total capital assets, net		$ 51,599,377	**$ 29,501,912**	**$ (122,898)**	**$ –**	**$ 80,978,391**

During fiscal year 2014, the Company acquired an intangible asset, which consists of an in-kind contribution from Water and Power Authority of the US Virgin Islands, who made an irrevocable donation of the use of their utility poles and underground conduits valued at $10,474,987. viNGN used this donation as an in-kind contribution towards the American Recovery and Reinvestment Act of 2009 (ARRA)-funded Comprehensive Community Infrastructure (CCI) grant award.

3. Related Party Transactions

PFA originated a Bond Anticipation Note to finance viNGN's operations, finance certain portions of the optical network not covered by the grants and comply with its cash matching obligation.

No repayment schedule nor any covenants have been established regarding this advance payable to PFA. viNGN is not paying any interest on this payable.

Advance payable outstanding was as follows:

Advance Payable to PFA Outstanding 9/30/2013	**New Issuances**	**Debt Payments**	**Advance Payable to PFA Outstanding 9/30/2014**
$30,765,266	**$957,117**	**$ –**	**$31,722,383**

4. Commitments

Future Minimum Lease Payments

The Company does not own any real estate. On 2012 the Company entered into a six-year lease for offices owned by the West Indian Company, Limited (WICO), a wholly owned subsidiary of the PFA from January 1, 2012 through December 31, 2017. Future minimum lease payments for the remaining fiscal years are as follows:

Future lease payments:	
2015	$ 144,000
2016	144,000
2017	36,000
Total future minimum payments	$ 324,000

Rent expense for the year ended September 30, 2014 was $144,000.

5. In-Kind Contribution

In fiscal year 2013, National Education Foundation made an irrevocable donation of educational courses valued at $2,336,731. The offering covers over 5,500 courses, and viNGN could offer up to 33,380 unique licenses. viNGN used this donation as an in-kind contribution towards the American Recovery and Reinvestment Act of 2009 (ARRA)-funded Public Computer Centers (PCC) grant award and Sustainable Broadband Adoption (SBA) grant award.

Additionally in fiscal year 2014, Water and Power Authority of the US Virgin Islands made an irrevocable donation of the use of their utility poles and underground conduits valued at $10,474,987. viNGN used this donation as an in-kind contribution towards the American Recovery and Reinvestment Act of 2009 (ARRA) - Funded Comprehensive Community Infrastructure (CCI) grant award.

6. New Accounting Pronouncements

Following are statements issued by GASB that are effective in future fiscal years. The impact of the adoption of these statements if any is being evaluated.

Statement No.	Overview	Adoption Required in Fiscal Year
72	Fair Value Measurement and Application	2016
71	Pension Transition for Contributions made Subsequent to the Measurement Date	2015
69	Government Combinations and Disposals of Government Operations	2015
68	Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27	2015

7. Subsequent Events

Several matters occurred after the Company's September 30, 2014 fiscal year end that had a significant impact in the Company's operations.

In January 2015, NTIA, the U.S. OMB, and NOAA approved a no-cost close-out extension of VIPFA/viNGN's CCI, PCC, and SBA grants through March 31, 2015. For the CCI grant, this provided additional time through March 31, 2015 to complete all network connections and network testing activities. The extension also provided additional time to complete the project by allowing reimbursement requests through March 31, 2015.

In December 2014, VIPFA advanced an additional $2.5 million to viNGN for continued build out of the network and for continued operational costs.

In March 2015, VIPFA changed most of the members of the Board of Directors of viNGN and a new Chief Executive Officer/President was appointed.

Building a better working world

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors of
viNGN, INC. d/b/a Virgin Islands Next Generation Network

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of viNGN, INC. d/b/a Virgin Islands Next Generation Network (the Company) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements and have issued our report thereon dated June 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001, to be material a weakness.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Company's Response to the Finding

The Company's response to the finding identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

June 30, 2015

A member firm of Ernst & Young Global Limited

OMB Circular A-133 Report

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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

The Board of Directors of
The viNGN, INC. d/b/a Virgin Islands Next Generation Network

Report on Compliance for Each Major Federal Program

We have audited the viNGN Inc. d/b/a Virgin Islands Next Generation Network (the Company)'s compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Company's major federal programs for the year ended September 30, 2014. The Company's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Company's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Company's compliance.

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Opinion on Each Major Federal Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Company as of and for the year ended September 30, 2014, and have issued our report thereon dated June 30, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

June 30, 2015

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viNGN, INC. d/b/a Virgin Islands Next Generation Network

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Code	Direct Award	Total Federal Expenditures
US Department of Commerce			
Sub-Awards passed through from the Virgin Islands Public Finance Authority to subrecipient viNGN, Inc:			
ARRA - State Broadband Data and Development Program / State Broadband Initiative	ARRA - 11.558	No	$ 88,656
ARRA - BroadBand Technology Opportunities Program	ARRA - 11.557	No	17,712,636
ARRA - BroadBand Technology Opportunities Program	ARRA - 11.557	No	650,765
ARRA - BroadBand Technology Opportunities Program	ARRA - 11.557	No	956,330
Total 11.557 Expenditures			19,319,731
Total US Department of Commerce			19,408,387
Total Federal Expenditures			**$ 19,408,387**
Total Expenditures of Federal Awards			

See accompanying notes to schedule of expenditures of federal awards.

1. Basis of Presentation

For purposes of complying with OMB Circular A-133 and the Single Audit Act Amendments of 1996, viNGN, INC. d/b/a Virgin Islands Next Generation Network (the Company) is defined in a manner consistent with the entity defined in the basic financial statements as of and for the year ended September 30, 2014. Accordingly, the accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the Federal financial assistance programs administered by the Company for the year ended September 30, 2014.

2. Basis of Accounting

The accompanying Schedule was prepared using the modified accrual basis of accounting in which expenditures are generally recognized when they are incurred. Such expenses are recognized following the cost principles contained in OMB Circular A-87 where certain types of expenses are not allowable or are limited as to reimbursement.

3. Matching Costs

Matching costs, such as the nonfederal share of certain program costs, are not included in the accompanying Schedule.

viNGN, INC. d/b/a Virgin Islands Next Generation Network

Schedule of Findings and Questioned Costs

Year Ended September 30, 2014

Part I - Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued (unmodified, qualified, adverse or disclaimer):	**Unmodified**			
Internal control over financial reporting:				
Material weakness(es) identified?	**X**	**yes**		**no**
Significant deficiency(ies) identified?		**yes**	**X**	**none reported**
Noncompliance material to financial statements noted?		**yes**	**X**	**no**

Federal Awards Section

Internal control over major federal programs:				
Material weakness(es) identified?		**yes**	**X**	**no**
Significant deficiency(ies) identified?		**yes**	**X**	**none reported**
Type of auditor's report issued on compliance for major federal programs (unmodified, qualified, adverse or disclaimer):	**Unmodified**			
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?		**yes**	**X**	**no**

Identification of major programs:

CFDA number	**Name of federal program or cluster**
ARRA-11.557	Broadband Technology Opportunities Program

Dollar threshold used to distinguish between Type A and Type B programs: $582,252

Auditee qualified as low-risk auditee?		**yes**	**X**	**no**

Part II - Financial Statement Findings Section

This section identifies significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

Part II - Financial Statement Findings Section (continued)

Finding Number: 2014-001

Topic
Financial Statements Close Process.

Criteria
A fundamental element of a sound system of internal controls is an effective financial statement close process. Such process is essential in enabling organizations to prepare timely and accurate financial statements. This process helps to ensure that all financial transactions are properly recorded, appropriately supported and subjected to supervisory review. The financial statement close process begins with accounting data recorded in the Company's general ledger and culminates in the preparation of the Company's financial statements, including identification and documentation of the relevant disclosures that are required under generally accepted accounting principles.

Condition
During our audit, we noted deficiencies in the Company's financial statement close process, including the following:

- Multiple audit/post-closing entries that were not initially identified by the Company's internal controls were required to properly record expense activity, cash activity, capital assets activity, and certain liabilities. These entries were considered material to the financial statements.

- The compilation of financial data and reconciliation processes are not completed in a timely manner. The lack of procedures and controls in these areas result in inefficiencies during the financial statements preparation process.

- The accounting and financial reporting operations are not able to detect or prevent accounting errors effectively nor efficiently which results in multiple audit adjustments.

Part II - Financial Statement Findings Section (continued)

Finding Number: 2014-001 (continued)

Cause
The internal controls over the financial statement close process were not effective for fiscal year 2014.

Effect
There were numerous post-closing and audit adjustments that were recorded by the Company as noted above.

Recommendations
Management should improve the annual closing process, including more effective monitoring controls over financial information. All general ledger accounts should be supported by reconciliations, rollforward schedules and other appropriate documentation which are timely reviewed at two levels, and evidenced by supervisory and signature approval. Journal entries should be supported by complete documentation and timely reviewed as well as reviewing the processing of journal entries at year-end.

All accounting estimates should also be properly supported and reviewed. In reviewing and developing the closing process, the Company should ensure that it has sufficient accounting personnel with the appropriate experience and training to effectively perform the financial statement close process. Additionally, key accounting personnel need to review the draft financial statements for correctness of accounting presentation and disclosure prior to its presentation to the auditors.

An effective control environment requires that those in charge of governance monitor the accounting and financial reporting functions effectively. By implementing these recommendations the monitoring of the accounting and financial reporting activities of the Company will be reinforced.

Part II - Financial Statement Findings Section (continued)

Finding Number: 2014-001 (continued)

Management's Response

The management team concurs with the auditor's finding, regarding the internal controls over the financial statement closing process of viNGN, INC. d/b/a Virgin Islands Next Generation Network (viNGN) and had already taken action to address this matter.

viNGN, INC. is a start-up public corporation which was established as a subsidiary of the Virgin Islands Public Finance Authority (PFA), effective October 22, 2010, to implement four American Recovery and Reinvestment Act (ARRA)-funded grants and to manage the resulting broadband network, as the PFA's core business operations have not included the implementation of federal grant programs or the management of any broadband networks. Most of the implementation activities began in earnest during FY2012.

For the three (3) ARRA grants with CFDA 11.557, as awarded by the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA) and co-managed by the National Oceanic and Atmospheric Administration (NOAA) and the National Institute of Standards and Technology (NIST) [i.e. the Comprehensive Community Infrastructure (CCI) grant, the Public Computer Centers (PCC) grant and the Sustainable Broadband Adoption (SBA) grant] and the ARRA-funded grant with CFDA 11.558 [i.e. the State Broadband Initiative (SBA)/State Broadband Data and Development (SBDD) grant], the PFA, the Prime Recipient, sub-awarded 100% of the grant awards to viNGN. Thus, viNGN is also the sole Sub-recipient of the PFA's above-referenced Broadband Technology Opportunities Program (BTOP) grant awards.

As a start-up business unit within the PFA and subsequently as a separate legal entity, viNGN's management team maintained financial records; however, full implementation of a comprehensive financial system (i.e. the Microsoft Great Plains Dynamic system) did not begin until FY2012 after viNGN was established as a separate legal entity and after most of the implementation activities began in earnest. This financial system was selected, as it is the same system that is in operation at the PFA and is well-recognized as a credible financial system nationally.

Part II - Financial Statement Findings Section (continued)

Finding Number: 2014-001 (continued)

Management's Response (continued)

The core accounting and financial management modules of the Microsoft Great Plains Dynamics system at viNGN, INC. are fully implemented, with the data used to complete the PFA's and viNGN's FY2011, FY2012, FY2013 and FY2014 Financial Statement Audits and the OMB Circular A-133 Audits.

The viNGN, INC. management team, in collaboration with the PFA's management team, also developed Standard Finance Operating Procedures that address accounting and other financial management procedures, including the closing process. These procedures are being refined, as needed, on an ongoing basis. The U.S. Department of Commerce's National Telecommunication and Information Administration (NTIA), as Grantor Agency, received and reviewed documentation of these internal control procedures during a February 27, 2012 through March 2, 2012 Site Visit by team members from its National Telecommunications and Information Administration (NTIA) Compliance Office and Program Office, its National Oceanic and Atmospheric Administration (NOAA) and its National Institute of Standards and Technology (NIST); during a September 2012 Site Visit by team members from its NTIA Compliance Office and Program Office and NOAA who also represented NIST; during April 2013 by team members from its NTIA Compliance Office and Program Office, NOAA (telephonically only) and NIST; and during April 2014 by team members from its National Telecommunications and Information Administration (NTIA) Compliance Office and Program Office, its National Oceanic and Atmospheric Administration (NOAA) who were also representing NIST. More detailed documentation of financial management and other grants management policies and procedures that are tailored to the BTOP grants were also developed and submitted to NTIA, NOAA and NIST on October 3, 2011 and on October 10, 2011 and during each of the above-referenced Site Visits.

Also, NTIA, NOAA and NIST staff members received and reviewed documentation of these internal control procedures with the Drawdown/Reimbursement packages that were submitted during FY2012, FY2013 and FY2014 to date and during the Site Visits noted above. The NTIA, NOAA and NIST teams have confirmed their satisfaction with the financial management system, the internal control procedures, the documentation and the staff.

Part II - Financial Statement Findings Section (continued)

Finding Number: 2014-001 (continued)

Management's Response (continued)

Starting with the filing of the Quarter 4, current year 2011 ARRA 1512 reports (i.e., for FY2012) and other required quarterly reports through to date, accounting adjustments having been made to ensure more accurate reporting of expenditures across approved budget line items and for allowable expenditures. This occurred initially because, during October 2011, the PFA and viNGN hired additional staff to manage and/or to oversee viNGN's operations. The new management team at viNGN refined the reporting procedures for the Broadband Technology Opportunities Program (BTOP) grants with CFDA 11.557 and CFDA 11.558 and made accounting adjustments/expenditure reclassifications and corrections to some of the previously reported information. For example, as the new management teams worked to implement the Great Plains financial management system at viNGN, INC., the team reviewed past invoices, related contracts and/or purchase orders, procurement procedures and payments made, in an effort to ensure that they met all federal

Responsible Sub-recipient project management, Sub-recipient financial management, Sub-recipient procurement and property management, and Prime Recipient staff members must now review invoices against underlying contracts, related purchase orders, grant project budgets and/or on-site progress assessments, depending upon their specific roles, and then process the payment thereof under the specific ARRA/BTOP grant programs to minimize the number of accounting adjustments in the future, though accounting adjustments are sometimes made in the normal course of business and have been made after fiscal year closeouts to ensure that accrued expenditures are reflected accurately, as an example.

During FY2014, there were several accounting adjustments to account for the differences between the accounting method used for grant financial reporting on a quarterly basis and the accounting method used for financial statement audit reporting purposes. The cash basis of accounting is used for grant reporting, which is allowed and was done in order to remain consistent with previously-submitted reports and to ensure timely and the most accurate federal expenditures and match expenditure reporting. Further, there were some expenses that should have been accrued. As a result, the general ledger for viNGN, INC. had to be adjusted to the accrual method for financial statement audit reporting purposes.

Part II - Financial Statement Findings Section (continued)

Finding Number: 2014-001 (continued)

Management's Response (continued)

The management team of viNGN has worked to effectively implement and improve all accounting procedures through the hiring of additional staff at viNGN to ensure that internal controls for effective accounting/financial management, financial management oversight, and reporting are in place. Active Sub-recipient monitoring by the PFA and on-the-job training is provided to the PFA and viNGN staff, in an effort to ensure that the appropriate practices are consistently implemented, and the management team at viNGN is committed to continuing to improve the financial statement closing processing during the coming year and thereafter, especially now that some of the above-described challenges have been addressed.

Part III – Federal Awards Findings and Questioned Costs

This section identifies the audit findings required to be reported by OMB Circular A-133, Section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving Federal awards that are material to a major program.

No findings to report under Part III.

viNGN, INC. d/b/a Virgin Islands Next Generation Network

Summary Schedule of Prior Audit Findings

September 30, 2014

Finding 2013-002

CFDA Number	11.557
Federal Agency	U.S. Department of Commerce
Name of Federal Program	Broadband Technology Opportunities Program; State Broadband Data and Technology Development Grant Program
Type of Compliance Requirement	Reporting
Amount of Questioned Cost:	None
Contact Person Responsible for Corrective Action Plan	Director, Office of Economic Opportunity
Status	Corrected

Finding 2012-002

CFDA Number	11.557
Federal Agency	U.S. Department of Commerce
Name of Federal Program	Broadband Technology Opportunities Program; State Broadband Data and Technology Development Grant Program
Type of Compliance Requirement	Reporting
Amount of Questioned Cost:	None
Contact Person Responsible for Corrective Action Plan	Director, Office of Economic Opportunity
Status	Recurring (2013-002)

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