AUDITED FINANCIAL STATEMENTS

viNGN, INC. d/b/a Virgin Islands Next Generation Network
(A Component Unit of the Virgin Islands Public Finance Authority)
Year Ended September 30, 2017
With Report of Independent Auditors

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

Audited Financial Statements

Year Ended September 30, 2017

Contents

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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, 2017, 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 report 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.

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, 2017, 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.

Emphasis of a Matter

As more fully discussed in Note 6, the Government of the US Virgin Islands currently faces significant fiscal, economic and liquidity challenges, mainly as a result of the increasing governmental deficit position and high levels of debt and pension obligations. The Company's activities are blended within the primary Government's audited financial statements. The Company's ability to repay its obligations and finance its operations is highly dependent on payments from the Government. There are no assurances that the Government's plans will be sufficient to avoid defaulting on its debts to the Company and others. Our opinion is not modified with respect to this matter.

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 September 10, 2019, 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

September 10, 2019

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, 2017.

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 Company 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 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.

PFA through its Office of Economic Opportunity (OEO) applied for and was awarded four (4) broadband grants through the National Telecommunications and Information Administration (NTIA) under or in connection with the Broadband Technology Opportunities Program (BTOP) viNGN carries out these grants as a subrecipient.

Using the Financial Statements

The management's 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 19 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 $73.4 million at September 30, 2017, of which $68.8 million comprised the capital assets of the company net of depreciation. These assets include an Indefeasible Right of Use (IRU) 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 before amortization of $8.1 million. Assets under construction were booked at a value of $3.1 million. Total liabilities amounted to $37.5 million at September 30, 2017, of which $36.8 million were loans outstanding to the PFA and $674 thousand were for other liabilities. The total assets of the Company exceeded its total liabilities as of September 30, 2017 by $35.9 million (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, 2017 and 2016:

Condensed statement of revenues, expenses and changes in net position	**2017**	**2016**
Operating revenues	**$ 4,100,716**	$ 3,526,509
Operating expenses	**(12,331,250)**	(8,899,641)
Operating loss	**(8,230,534)**	(5,373,132)
Non-operating (expenses) revenues	**9,674**	9,672
Change in net position	**$ (8,220,860)**	$ (5,363,460)

Operations

During fiscal year 2017, the Company continued its operations and entered into several agreements with various internet service providers (ISPs) increasing its revenue. Operating revenue for fiscal year 2017 and 2016 was $4.1 and $3.5 million, respectively.

Capital Assets

Property and equipment consist mainly of heavy construction equipment, servers, IT equipment, leasehold improvements and intangible assets that amounted to $85.9 million with a net book value of $68.8 million net of $17.1 million accumulated depreciation and amortization.

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.

Construction in process includes all materials that would be used for the expansion and maintenance 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 $3.1 million as of September 30, 2017.

In fiscal year 2017, the Company identified $5.7 million in damages to personal property and equipment due to destruction caused by two Category 5 hurricanes in September 2017. The Company received a $2 million advance insurance settlement in December 2017. After the close of the fiscal year the Company continued its assessment of damage pending a settlement with the insurance company.

Advance Payable to PFA

As of September 30, 2017, the Company owed PFA $36.8 million. 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 interest terms have been established regarding this legislatively authorized loans from PFA.

Financial Condition

viNGN is a component unit of PFA (which in turn is a component unit of the Government). The Company maintained an advance payable to Public Finance Authority (PFA) of approximately $36.8 million as of September 30, 2017 comprised of the four (4) broadband grants awarded through the National Telecommunications and Information Administration (NTIA) under or in connection with the Broadband Technology Opportunities Program (BTOP), which were carried out by viNGN as the recipient. In January and March of 2017, the matching fund bonds and gross receipts tax bonds of the PFA experienced credit rating downgrades (Senior Lien Bonds to Caa1 from B1; Subordinate Lien Bonds to Caa1 from B1; Subordinated Indenture (Diageo) Bonds to Caa2 from B2; and Subordinated Indenture (Cruzan) Bonds to Caa2 from B2) due to the financial and budgetary challenges experienced by the Government. In January 2018, Moody's Ratings downgraded the PFA's Matching Fund Revenue Bonds as follows: Senior Lien Bonds to Caa2 from Caa1; Subordinate Lien Bonds to Caa3 from Caa2; Subordinated Indenture (Diageo) Bonds to Caa3 from Caa2; and Subordinated Indenture (Cruzan) Bonds to Caa3 from Caa2. The downgrade in rating was attributed by Moody's to the pending insolvency of the territory's pension system and the economic effects of Hurricanes Irma and Maria. Such downgrades are likely to negatively impact the PFA and Government's ability to access credit markets or to access them at supportable rates in the foreseeable future. In March 2017, the Legislature addressed the general fund deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic Recovery Act, a five-year plan of revenue initiatives and cost-cutting measures to reduce and eliminate structural deficits.

The Government also faces the challenge of unfunded pension liabilities. The actuaries of the Government's defined benefit pension plan project the fund may be unable to meet its obligations by fiscal year 2023. The administrator of the pension plan, the Virgin Islands Government Employees Retirement System (GERS), an independent and separate agency of the Government, submitted proposed rate increases for employees effective January 1, 2015, 2016 and 2017. There can be no assurance that the Government's actions will enable the pension plan to continue without further pension reform measures.

In September 2017, the Government experienced significant infrastructure damage due to two Category 5 hurricanes. The Government retained the accounting firm of Ernst & Young Puerto Rico, LLC and the international firm of Witt O'Brien's, LLP to coordinate recovery efforts following the hurricanes. Federal assistance awarded to the Government in connection with the hurricanes totals approximately $4.2 billion and the Government expects to receive $8.0 billion in federal assistance through fiscal year 2025.

To date, revenues pledged for debt service have not been significantly impacted by the Government's financial condition and it is unknown what impact, if any, the Government's financial condition will have on the PFA. While the Bonds and Notes issued by the PFA are supported by the Government's pledged revenues, the PFA is highly dependent on the Government repaying its loans to the PFA for the PFA to repay its obligations and fund its operations. The Government is in a significant net deficit position and currently faces significant fiscal, economic, and liquidity challenges related to the increasing net deficit, high levels of debt and unfunded pension obligations. As of September 30, 2017, all payments on the Bonds and Notes have been made as required and the PFA is in compliance with all related covenants. This situation could have an impact on viNGN, given its dependency on PFA for financing and the fact that the advance payable currently has no repayment schedule and the viNGN is not paying any interest on this payable.

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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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, 2017

Assets	
Current assets:	
Cash and cash equivalents	$ 3,687,436
Accounts receivable	520,098
Prepaid expenses and other current assets	371,590
Total current assets	4,579,124
Capital assets:	
Property and equipment, net	65,717,515
Construction in progress	3,114,581
Total capital assets	68,832,096
Total assets	73,411,220
Liabilities	
Current liabilities:	
Accounts payable, accrued expenses and other current liabilities	674,383
Total current liabilities	674,383
Advance payable to Public Finance Authority	36,804,453
Total liabilities	37,478,836
Net position	
Net investment in capital assets	32,027,643
Unrestricted	3,904,741
Total net position	$ 35,932,384

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, 2017

Operating revenues	$ 4,100,716
Operating expenses:	
General and administrative expenses	3,304,253
Loss on impairment of capital assets	3,949,495
Depreciation and amortization	5,077,502
Total operating expenses	12,331,250
Operating loss	(8,230,534)
Non-operating revenues:	
Interest income	9,674
Total non-operating revenues	9,674
Change in net position	(8,220,860)
Net position at beginning of year	44,153,244
Net position at end of year	$ 35,932,384

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, 2017

Operating activities	
Cash received from customers	$ 4,153,366
Cash paid to suppliers and employees, net of capitalized expenses	(2,968,190)
Net cash provided by operating activities	1,185,176
Capital and related financing activities	
Proceeds from PFA	153,099
Acquisition of property, plant and equipment	(974,990)
Net cash used in capital and related financing activities	(821,891)
Investing activities	
Interest income	9,674
Net cash provided by investing activities	9,674
Increase in cash and cash equivalents	372,959
Cash and cash equivalents at beginning of year	3,314,477
Cash and cash equivalents at end of year	$ 3,687,436
Reconciliation of loss from operations to net cash provided by operating activities	
Loss from operations	$ (8,230,534)
Adjustments to reconcile loss from operations to net cash provided by operating activities	
Loss on impairment of capital assets	3,949,495
Depreciation and amortization	5,077,502
Changes in operating assets and liabilities increase (decrease) cash:	
Prepaid expenses and other current assets	(54,949)
Accounts receivable	52,650
Accounts payable, accrued expense and other current liabilities	391,012
Total adjustments	9,415,710
Net cash provided by operating activities	$ 1,185,176

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 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. Operating 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, 2017, 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.

Accounts Receivable

Accounts Receivable consists of amounts due from various internet service providers (ISP), based on the terms of the master's service agreements. Management periodically reviews the status of all Accounts Receivable for collectability. Each balance is assessed based on management's knowledge of and relationship with the ISP and the age of the receivable balance. As a result of these reviews, balances deemed to be uncollectible are charged directly to bad debt expense. No allowance for doubtful account charges were recorded for the year ended September 30, 2017.

Major Customers and Revenue

The Company had three customers whose revenue individually represented 9% or more of the Company's total revenue. As of September 30, 2017, these companies accounted for 81% of the revenue earned in fiscal year 2017 as follows:

Customers with Revenues greater than 9%:

Broadband VI	60%
Alliance Data Services	12%
Orbitel	9%
Total	81%

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

Summary of Significant Accounting Policies (continued)

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 a 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.

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 assets may be impaired.

2. Capital Assets

Capital assets at September 30, 2017, are as follows:

	Useful Lives (in years)	Balance 9/30/2016	Additions	Impairment/ Disposals	Transfers	Balance 9/30/2017
Capital assets not being depreciated:						
Assets under construction		$ 2,600,165	$ 604,704	$ –	$ (506,976)	$ 2,697,893
Assets idle in warehouse		416,688	–	–	–	416,688
Capital assets being depreciated:						
Personal property and equipment	3-25	66,016,984	360,456	(5,410,948)	506,976	61,473,468
Buildings and buildings improvements	5-40	647,105	9,830	(262,276)	–	394,659
Intangible assets	2-15	20,973,568	–	–	–	20,973,568
Total		90,654,510	974,990	(5,673,224)	–	85,956,276
Less accumulated depreciation and amortization		(13,770,407)	(5,077,502)	1,723,729	–	(17,124,180)
Total capital assets		$ 76,884,103	$ (4,102,512)	$ (3,949,495)	$ –	$ 68,832,096

2. Capital Assets (continued)

In September 2017, the US Virgin Islands was struck by two category 5 hurricanes. As a result of the two storms, viNGN has identified $5.7 million of damage to its assets. During fiscal year 2018, the Company filed a claim with its insurance company and received an advance payment of $2 million in December 2017.

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.

Activities related to the advance payable outstanding for the year was as follows:

Advance Payable to PFA Outstanding 9/30/2016	New Issuances	Debt Payments	Advance Payable to PFA Outstanding 9/30/2017
$36,651,354	$153,099	$ –	**$36,804,453**

4. Commitments

Future Minimum Lease Payments

The Company does not own any real estate. In 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. The lease was amended by reducing monthly lease payments effective October 1, 2016 through the remainder of the lease term. Effective, December 2017, the Company entered into a second lease amendment with WICO extending the lease through December 31, 2022. Future minimum lease payments for the remaining fiscal years are as follows:

4. Commitments (continued)

Future Minimum Lease Payments (continued)

Future lease payments:		
2018	$	133,200
2019		129,600
2020		129,600
2021		129,600
2022		129,600
Thereafter		32,400
Total future minimum payments	$	684,000

In 2015 the Company entered into a five-year lease for warehouse owned by TOPA Properties, LLC (TOPA), from September 1, 2015 through August 31, 2020 with two 5-year renewable options each with a 5-year term through August 31, 2030. Future minimum lease payments for the remaining fiscal years are as follows:

Future lease payments:		
2018	$	90,000
2019		90,000
2020		82,500
Total future minimum payments	$	262,500

In 2016 the Company also entered into a three-year lease for warehouse owned by the Virgin Islands Development Park Corporation (VIEDA), from November 1, 2015 through October 31, 2018 with an amendment dated. Future minimum lease payments for the remaining fiscal years are as follows:

Future lease payments:		
2018	$	62,304
2019		5,192
Total future minimum payments	$	67,496

4. Commitments (continued)

Future Minimum Lease Payments (continued)

In 2016 the Company's lease for office space owned by the Bay Estates Group, LLC, expired on May 31, 2017. Future minimum lease payments for the remaining fiscal years are as follows:

Future lease payments:		
2018	$	26,664
Total future minimum payments	$	26,664

Rent expense for the year ended September 30, 2017 for all operating leases was $299,096.

5. 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
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	2018
81	Irrevocable Split-Interest Agreements	2018
83	Certain Asset Retirement Obligations	2018
84	Fiduciary Activities	2019
85	Omnibus 2017	2018
86	Certain Debt Extinguishment Issues	2018
87	Leases	2021
88	Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements	2019
89	Accounting for Interest Cost Incurred Before The End of a Construction Period	2021
90	Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61	2020
91	Conduit Debt Obligations	2022

6. Financial Condition

viNGN is a component unit of PFA (which in turn is a component unit of the Government). The Company maintained an advance payable to Public Finance Authority (PFA) of approximately $36.8 million as of September 30, 2017 comprised of the four (4) broadband grants awarded through the National Telecommunications and Information Administration (NTIA) under or in connection with the Broadband Technology Opportunities Program (BTOP), which were carried out by viNGN as the recipient. In January and March of 2017, the matching fund bonds and gross receipts tax bonds of the PFA experienced credit rating downgrades (Senior Lien Bonds to Caa1 from B1; Subordinate Lien Bonds to Caa1 from B1; Subordinated Indenture (Diageo) Bonds to Caa2 from B2; and Subordinated Indenture (Cruzan) Bonds to Caa2 from B2) due to the financial and budgetary challenges experienced by the Government. In January 2018, Moody's Ratings downgraded the PFA's Matching Fund Revenue Bonds as follows: Senior Lien Bonds to Caa2 from Caa1; Subordinate Lien Bonds to Caa3 from Caa2; Subordinated Indenture (Diageo) Bonds to Caa3 from Caa2; and Subordinated Indenture (Cruzan) Bonds to Caa3 from Caa2. The downgrade in rating was attributed by Moody's to the pending insolvency of the territory's pension system and the economic effects of Hurricanes Irma and Maria. Such downgrades are likely to negatively impact the PFA and Government's ability to access credit markets or to access them at supportable rates in the foreseeable future. In March 2017, the Legislature addressed the general fund deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic Recovery Act, a five-year plan of revenue initiatives and cost-cutting measures to reduce and eliminate structural deficits.

The Government also faces the challenge of unfunded pension liabilities. The actuaries of the Government's defined benefit pension plan project the fund may be unable to meet its obligations by fiscal year 2023. The administrator of the pension plan, the Virgin Islands Government Employees Retirement System (GERS), an independent and separate agency of the Government, submitted proposed rate increases for employees effective January 1, 2015, 2016 and 2017. There can be no assurance that the Government's actions will enable the pension plan to continue without further pension reform measures.

In September 2017, the Government experienced significant infrastructure damage due to two Category 5 hurricanes. The Government retained the accounting firm of Ernst & Young Puerto Rico, LLC and the international firm of Witt O'Brien's, LLP to coordinate recovery efforts following the hurricanes. Federal assistance awarded to the Government in connection with the hurricanes totals approximately $4.2 billion and the Government expects to receive $8.0 billion in federal assistance through fiscal year 2025.

6. Financial Condition (continued)

To date, revenues pledged for debt service have not been significantly impacted by the Government's financial condition and it is unknown what impact, if any, the Government's financial condition will have on the PFA. While the Bonds and Notes issued by the PFA are supported by the Government's pledged revenues, the PFA is highly dependent on the Government repaying its loans to the PFA for the PFA to repay its obligations and fund its operations. The Government is in a significant net deficit position and currently faces significant fiscal, economic, and liquidity challenges related to the increasing net deficit, high levels of debt and unfunded pension obligations. As of September 30, 2017, all payments on the Bonds and Notes have been made as required and the PFA is in compliance with all related covenants. This situation could have an impact on viNGN, given its dependency on PFA for financing and the fact that the advance payable currently has no repayment schedule and the viNGN is not paying any interest on this payable.

7. Subsequent Events

In December 2017, viNGN received $2 million in insurance proceeds related to damage incurred by Hurricanes Irma and Maria in September 2017. In April 2018, the Company received $500,000 in insurance proceeds for loss of income. In July 2019, the Company received $1,275,825 in insurance proceeds related to damage incurred by Hurricanes Irma and Maria in September 2017. The Company is continuing to negotiate a final settlement with its insurance company.

In July 2018, viNGN received a $497,000 grant award from the Department of the Interior Office of Insular Affairs for the recovery and restoration of fiber optic cable network infrastructure equipment.

Building a better
working world

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Report of Independent Auditors 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, 2017, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements and have issued our report thereon dated September 10, 2019.

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.

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 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. 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.

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

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*.

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

September 10, 2019

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