CONNECTME Authority

(A component unit of the State of Maine)

Financial Report

June 30, 2013

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Independent Auditors' Report

To the Authority Members
ConnectME Authority
Augusta, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of ConnectME Authority, a component unit of the State of Maine, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of ConnectME Authority, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Authority Members
ConnectME Authority

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison Schedule - Special Revenue Fund on pages 3 through 6 and 19, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ConnectME Authority's basic financial statements. The Combining Schedule of Revenues, Expenditures and Change in Fund Balance - Special Revenue Fund on page 20 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The Combining Schedule of Revenues, Expenditures and Change in Fund Balance - Special Revenue Fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Schedule of Revenues, Expenditures and Change in Fund Balance - Special Revenue Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Macpage LLC

Augusta, Maine
October 29, 2013

Management's Discussion and Analysis

The following narrative overview and analysis is intended to assist the readers in understanding the financial activities of ConnectME Authority (the Authority) for the fiscal year ended June 30, 2013. Information contained within the discussion and analysis should be considered in conjunction with the basic financial statements when focusing on significant financial issues and identifying any significant changes in financial position.

Overview of the Authority

The Authority was created through the passage of 35-A MRSA §9202 with the objective of stimulating investment in advanced communications technology infrastructure in unserved or underserved areas in the State of Maine. The Authority is governed by five members, three of which are appointed by the Governor of the State of Maine.

In accordance with 35-A MRSA §9204 (1), the Authority shall establish criteria defining unserved and underserved areas. The criteria will ensure that an area is not determined to be an unserved or underserved area if the effect of the determination would inhibit or impede private investment in any area or diminish the value of prior investment in advanced communications technology infrastructure within an area. The Authority defined the criteria as well as other operation guidelines by adopting public law 99-639 Chapter 101.

On August 26, 2009, the Authority awarded a contract to a vendor that will create the first comprehensive geographic inventory of high-speed internet services statewide for use in identifying unserved and underserved areas based on the criteria defined in Chapter 101. The Broadband Mapping and Inventory Project will assist the Authority in developing a Broadband Capacity Building Plan to support broadband growth, disseminate technical information about broadband availability, and further improve understanding of opportunities to enhance broadband throughout the State of Maine.

Under 35-A MRSA §9204 (2), the Authority is directed to enhance communications technology infrastructure through partnerships, grants, direct investment, loans, demonstration projects and other appropriate means in a competitively neutral fashion and without giving preference to any one form of technology over another. To achieve this objective, the Authority has established a grant program entitled Funds for Broadband Infrastructure Projects.

Financial Highlights

The Authority's program revenues and expenditures in the Statement of Activities were $2,279,720 and $3,277,519, respectively.

The Authority's net position as of June 30, 2013 was $2,527,770. The term "net position" refers to the difference between assets and liabilities. Net position was all restricted as of June 30, 2013. The change in net position for the year ended June 30, 2013 was a decrease of $994,599.

Overview of the Financial Statements

The financial statements are designed to provide readers with an overview of the Authority's financial resources, expenditures and remaining resources available for future periods.

The financial statements on pages 7 and 8 represent the Authority's Statement of Net Position and Statement of Activities, respectively. These statements focus on the net position remaining as an indicator of the Authority's financial health. The statements include all assets and liabilities using the accrual basis of accounting, which is an accounting method used by most private-sector companies.

The financial statements on pages 9 and 11 represent the Authority's Special Revenue Fund. The fund focuses on how money flows into and out of the Authority and balances left at the end of the reporting period on the modified accrual basis of accounting. The modified accrual basis of accounting measures cash and all other financial assets that can be readily converted into cash. Basically, the fund financial statements provide a short-term perspective on financial sources and any fund balance that can be spent in the near future on the Authority's programs.

Overview of the Financial Statements - Continued

The primary adjustment to convert the fund statements to the accrual basis of accounting is the accounting for accounts receivable and deferred revenue from the broadband sustainability fee that will not be collected soon after year-end and are therefore not considered to be current and available financial resources. A detailed explanation regarding the difference is provided in the Reconciliation of the Governmental Fund Balance Sheet to the Government-Wide Statement of Net Position on page 10.

The other supplemental schedule, Combining Schedule of Revenues, Expenditures, and Change in Fund Balance - Special Revenue Fund, provides details that support the primary financial statements and offer the reader a breakdown of various expenditures by governmental activities.

Financial Analysis

A comparative analysis to the prior year for the Statement of Net Position and Statement of Activities is not presented as the adjustments are not significant to the Special Revenue Fund reporting and information regarding those adjustments is disclosed in the reconciliations to the financial statements.

Balance Sheet - Governmental Fund

	2013	2012	% Change
Assets			
Cash and cash equivalents	$2,448,544	$3,335,298	-26%
Other assets	453,275	532,609	-14%
Total Assets	$2,901,819	$3,867,907	-25%
Liabilities			
Accounts payable and due to other governments	$ 241,923	$ 330,803	-26%
Other liabilities	132,126	14,735	88%
Total Liabilities	374,049	345,538	7%
Fund Balance - Restricted	2,527,770	3,522,369	-28%
Total Liabilities and Fund Balance	$2,901,819	$3,867,907	-25%

The most significant changes to the Authority's operation in the past year continue to be the change in National Telecommunications and Information Administration (NTIA) funded activities. While the Broadband Mapping and Inventory Project has been in effect for nearly four years, the Planning Project continues to be active, with surveys and revisions to the Needs Assessment, but will begin to wind down as the funds are expended. The two supplemental projects – Broadband Capacity Building and Technical Assistance continue to function, but will also wind down over the next year. ConnectME fund broadband infrastructure projects continue to be awarded every ten to twelve months. Projects that have been approved in previous fiscal year grant rounds continue to be paid out as work is completed on the projects. These payments account for a significant portion of the decrease in cash and fund balance. The fund balance is also affected by the slightly decreased level of assessments. This is a trend that is expected to continue.

Financial Analysis - Continued

Statement of Revenues, Expenditures and Change in Fund Balance - Governmental Fund

	2013	2012	% Change
Revenues			
Federal grant	$ 958,112	$1,202,344	-20%
Assessments	1,291,649	1,373,268	-5%
Other	33,159	11,319	192%
Total Revenues	2,282,920	2,586,931	-11%
Expenditures			
Management - Office of Information Technology	306,911	287,466	6%
Contract services	2,689,624	2,407,997	11%
Other	8,383	11,044	-24%
Total Expenditures	3,004,918	2,706,507	11%
Other Financing Uses	(272,601)	(192,324)	41%
Deficiency of Revenues over Expenditures	(994,599)	(311,900)	-218%
Fund Balance, Beginning	3,522,369	3,834,269	-7%
Fund Balance, Ending	$2,527,770	$3,522,369	-28%

A significant change indicated above reflects the beginning of decreasing NTIA funded project activities, both in revenues received and contract services. However, contract services have increased overall from the prior year due to ConnectME fund broadband infrastructure projects that continue to be paid for all previous grant rounds as work on the projects are completed. As stated above, the fund balance is also affected by the slightly decreased level of assessments.

The Authority's budgetary basis is the modified accrual basis of accounting used for the fund financial statements. The following is a condensed analysis of the Authority's final budget as compared to actual amounts for the year ended June 30, 2013.

Budgetary Comparison Schedule

	Final Budget	Actual 2013	Variance Positive (Negative)
Revenues			
Federal grant	$1,136,190	$ 958,112	-15%
Assessments	1,350,000	1,291,649	-4%
Other	40,350	33,159	-17%
Total Revenues	2,526,540	2,282,920	-9%
Expenditures			
Management - Office of Information Technology	280,825	306,911	-9%
Contract services	3,006,130	2,962,225	1%
Other	10,000	8,383	16%
Total Expenditures	3,296,955	3,277,519	1%
Deficiency of Revenues over Expenditures	$ (770,415)	$ (994,599)	-29%

Financial Analysis - Continued

As stated above, the most significant changes to the Authority's operation in the past year continue to be the variations in NTIA funded activities. While the Broadband Mapping and Inventory Project has been in effect for nearly four years, the Planning Project continues to be active, with surveys and revisions to the Needs Assessment, but will begin to wind down as the funds are expended. The two supplemental projects – Broadband Capacity Building and Technical Assistance continue to function, but will also wind down over the next year. ConnectME fund broadband infrastructure projects continue to be awarded every ten to twelve months. The assessment amount is affected by the slightly decreased level of assessments remitted. This is a trend that is expected to continue.

Other Financial Information

The Authority has no capital assets.

The Authority had no borrowing activity during the year. The Authority has no plans for borrowing during the next several fiscal years.

The Authority has various commitments to vendors for fund administration, a mapping and inventory project, a planning project and grants for broadband expansion with various end dates through December 31, 2014. The total amount of these commitments as of June 30, 2013 is approximately $3,595,000. In addition, the Authority has entered into Memorandums of Understanding with two agencies of the State of Maine to carry out various projects under the NTIA grant. Both memorandums are effective through December 31, 2014.

As of June 30, 2013 an event affecting the Authority's funded activities is a request by the Authority to the State of Maine Public Utilities Commission (PUC) to investigate the non-payment of the broadband sustainability fee (BBSF) by a competitive local exchange carrier (CLEC). The PUC opened an investigation May 9, 2013 (Docket No. 2013-00252). The BBSF is intended to fund broadband infrastructure projects of incumbent local exchange carriers (ILEC) by imposing a high fee on the CLECs who contract for fiber capacity from the Maine Fiber Company. The BBSF is administered by the Authority under 35-A, M.R.S.A. Section 9216. Currently the Authority collects approximately $120,000 annually, although the potential is for the BBSF to provide multiple millions of dollars per year in the future. The PUC has not yet issued a decision in the investigation as of the date on which the financial statements were available to be issued.

Aside from what has been mentioned above we are not aware of any other facts, conditions or planned decisions that will have a significant impact on the financial position and results of operations in the upcoming reporting period.

This financial report is intended to provider readers with a general overview of ConnectME Authority's finances and show accountability for expenditures relating to its program activities. If you have questions regard this report or need additional information, please contact the Executive Director of the ConnectME Authority.

Statement of Net Position

June 30, 2013

		Governmental Activities
ASSETS		
Cash and cash equivalents	$	2,448,544
Accounts receivable		433,356
Due from other governments		119,858
Other receivable		21
Total Assets	$	3,001,779
LIABILITIES AND NET POSITION		
Liabilities		
Accounts payable	$	173,350
Accrued liabilities		5,355
Due to other governments		68,573
Deferred revenue		226,731
Total Liabilities		474,009
Net Position		
Restricted for:		
Advanced communications technology infrastructure		2,527,770
Total Liabilities and Net Position	$	3,001,779

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Statement of Activities

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Assessments, and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position: Governmental Activities
Governmental Activities					
General and administrative	$ 373,684	$ -	1,291,649	$ -	$ 917,965
Grants for broadband expansion	1,901,032				(1,901,032)
Broadband sustainability			5,921		5,921
Mapping and inventory	411,343		411,132		(211)
Planning	186,982		166,540		(20,442)
Capacity building	252,273		252,273		
Technical assistance	152,205		152,205		
Total Governmental Activities	$ 3,277,519	$ -	$ 2,279,720	$ -	(997,799)
General revenues:					
Miscellaneous income					2,908
Interest income					292
Total general revenues					3,200
Change in Net Position					(994,599)
Net Position, Beginning					3,522,369
Net Position, Ending					$ 2,527,770

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Balance Sheet - Governmental Fund

June 30, 2013

		Special Revenue Fund
ASSETS		
Cash and cash equivalents	$	2,448,544
Accounts receivable		333,396
Due from other governments		119,858
Other receivable		21
Total Assets	$	2,901,819
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	$	173,350
Accrued liabilities		5,355
Due to other governments		68,573
Deferred revenue		126,771
Total Liabilities		374,049
Fund Balance		
Restricted for:		
Advanced communications technology infrastructure		2,527,770
Total Liabilities and Fund Balance	$	2,901,819

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Reconciliation of the Governmental Fund Balance Sheet to Government-Wide Statement of Net Position

June 30, 2013

Governmental Fund Balance	**$ 2,527,770**
Amounts reported for governmental activities in the Statement of Net Position are different because of the following:	
Accounts receivable from the broadband sustainability fee that will not be collected soon enough after year-end to be considered a current and available financial resource and, therefore, is not reported as an asset in the Special Revenue Fund.	**99,960**
Deferred revenue from the broadband sustainability fee in which resources have not been received before any eligibility requirements have been met by the Authority and therefore, is reported as deferred revenue.	**(99,960)**
Net Position of Governmental Activities	**$ 2,527,770**

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenditures and Change in Fund Balance - Governmental Fund

Year Ended June 30, 2013

	Special Revenue Fund
Revenues	
Federal Grant	
National Telecommunications and Information Administration	$ 958,112
Assessments	1,291,649
Broadband sustainability fee	5,921
Contracts	24,038
Miscellaneous	2,908
Interest	292
Total Revenues	2,282,920
Expenditures	
Management - Office of Information Technology	306,911
Purchased professional and technical services	
Contract services	
Broadband infrastructure grants	1,901,032
Mapping	406,843
Planning	186,982
Capacity building	131,877
GEM software	4,500
Fund administration	30,620
Professional fees	27,770
Bank fees	5,320
Miscellaneous	3,063
Total Expenditures	3,004,918
Deficiency of Revenues Over Expenditures	(721,998)
Other Financing Sources (Uses)	
Intra-entity grants	(272,601)
Net Change in Fund Balance	(994,599)
Fund Balance, Beginning	3,522,369
Fund Balance, Ending	$ 2,527,770

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Under the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 61, "The Financial Reporting Entity: Omnibus", as outlined below under Reporting Entity, ConnectME Authority (the Authority) is considered a component unit of the State of Maine. Accordingly, the financial statements of the Authority will be incorporated into the State of Maine's financial statements.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

Reporting Entity

In evaluating the Authority as a reporting entity, management has addressed all potential component units for which the Authority may or may not be financially accountable, and as such, be includable within the Authority's financial statements. In accordance with GASB Statement No. 14, as amended by GASB Statement No. 61, the Authority is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Authority. Additionally, the Authority is required to consider other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the application of these criteria, there are no other entities that should be included as part of these financial statements.

The Authority was created through 35-A MRSA §9202 to stimulate investment in advanced communications technology infrastructure in unserved or underserved areas in the State of Maine. The Authority is governed by five members, three of which are appointed by the Governor of the State of Maine.

In accordance with 35-A MRSA §9204 (1), the Authority shall establish criteria defining unserved and underserved areas. The criteria will ensure that an area is not determined to be an unserved or underserved area if the effect of the determination would inhibit or impede private investment in any area or diminish the value of prior investment in advanced communications technology infrastructure within an area. The Authority defined the criteria as well as other operation guidelines by adopting public law 99-639 Chapter 101.

On August 26, 2009, the Authority awarded a contract to a vendor that will create the first comprehensive geographic inventory of high-speed internet services statewide for use in identifying unserved and underserved areas based on the criteria defined in Chapter 101. The Broadband Mapping and Inventory Project will assist the Authority in developing a Broadband Capacity Building Plan to support broadband growth, disseminate technical information about broadband availability, and further improve understanding of opportunities to enhance broadband throughout the State of Maine.

Notes to Financial Statements

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reporting Entity - Continued

Under 35-A MRSA §9204 (2), the Authority is directed to enhance communications technology infrastructure through partnerships, grants, direct investment, loans, demonstration projects and other appropriate means in a competitively neutral fashion and without giving preference to any one form of technology over another. To achieve this objective, the Authority has established a grant program entitled Funds for Broadband Infrastructure Projects. As of June 30, 2013, the Authority has awarded eight rounds of grants designed to fund awardees, through an application and approval process, with plans designed to provide high-speed internet service to customers in unserved areas of Maine.

To provide funding for the Authority, 35-A MRSA §9211 established the ConnectME Fund as a non-lapsing fund for the purposes of supporting the activities and projects of the Authority. The Fund allows the Authority to assess a fee to every communications service provider on a competitively neutral basis. The assessment may not exceed 0.25% of the revenue received or collected for all communications services provided in the State of Maine by the communications service provider. The Authority has set the assessment rate at the maximum of 0.25%.

In addition to the assessment, under 35-A MRSA §9216, the Authority has the ability to charge a broadband sustainability fee (BBSF). Any entity in the State of Maine that purchases, leases or otherwise obtains federally supported dark fiber from a dark fiber provider is subject to the broadband sustainability fee. During the first assessment period, a monthly fee equal to $3 multiplied by the number of miles of federally supported dark fiber strand must be paid to the Authority. The fee is reduced to a rate of $2 during the second assessment period. The BBSF lapses on December 31, 2017.

All revenues derived by the Authority from any assessment, transfer of funds, lease, assignment, rental agreement or other disposition or any other revenue must be used for the purposes of the Authority's objectives in accordance with 35-A MRSA §9213.

Basis of Presentation

The Authority's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the Authority's special-purpose activities. These statements reflect the financial activity of the Authority's governmental program. The governmental activity is generally financed through a federal operating grant and communication servicer provider assessments.

Notes to Financial Statements

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation - Continued

Fund Financial Statements

The fund financial statements provide information about the Authority's governmental fund. The Authority reports the following governmental fund:

Special Revenue Fund

The Special Revenue Fund is a governmental fund type used to account for federal, state and other financial programs where unused balances are returned to the grantor at the close of specified project periods, if necessary. Project accounting is employed to maintain integrity for the various sources of funds. Generally, revenues in the Special Revenue Fund are restricted or committed to expenditure for specified purposes.

Measurement Focus, Basis of Accounting

Government-Wide Financial Statements

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Government Funds

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. General capital asset acquisitions are reported as expenditures in governmental funds.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Accounts Receivable

Accounts receivable consist of communication service provider assessments and have been adjusted for all known uncollectible accounts. No allowance for doubtful accounts is considered necessary at June 30, 2013.

Notes to Financial Statements

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred Revenue

Under 35-A MRSA §9216, 95% of the funds collected from the BBSF must be held in a Broadband Sustainability Fund used to grant funds to local exchange carriers who file a request and certification with the Authority to deploy broadband infrastructure in unserved areas within the carrier's service territory. Unspent funds can be transferred to the ConnectME Fund upon lapse in certain time restrictions. Deferred revenue consists of the unspent broadband sustainability funds as of June 30, 2013.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable by the Authority are nonspendable in form. The Authority has not reported any amounts that are legally or contractually required to be maintained intact.

- Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation. The Authority's fund balance is restricted by legislation established by the State of Maine.

- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to rules established by the Authority Members. Commitments may be modified or rescinded only through approval of the Authority Members.

- Assigned – includes amounts that the Authority intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.

- Unassigned – includes negative residual fund balance that cannot be eliminated by the offsetting of assigned fund balance amounts within the special revenue fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to have been spent first. When an expenditure is incurred for which committed or assigned fund balances are available, the Authority considers amounts to have been spent first out of committed funds, then assigned funds as needed.

Restriction on Net Position

Net position represents the difference between assets and liabilities. The restricted net position of the Authority is restricted by legislation established by the State of Maine. The Authority's restricted net position is restricted for the activities established in the governing law which formed the Authority. The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Notes to Financial Statements

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Budgetary Requirements

Budgets are formally adopted through the Authority Members to account for all program activities of the Authority and are adopted on a basis consistent with GAAP.

Recently Adopted Accounting Pronouncements

In November 2010, the GASB issued GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". This statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. It applies to financial reporting by primary governments and other stand-alone governments, and to the separately issued financial statements of governmental component units as defined in GASB Statement No. 14. The adoption of this statement did not have a significant impact on the Authority's financial statements.

In June 2011, the GASB issued GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". This statement requires amounts reported as deferred outflows and inflows of resources to be reported in a separate section following assets and liabilities, respectively, in a new statement of net position. The adoption of this statement did not have a significant impact on the Authority's financial statements.

Recent Accounting Pronouncements

In March 2012, the GASB issued GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities". This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. The new statement is effective for periods beginning after December 15, 2012. The Authority is currently assessing the impact of this statement on its financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a formal deposit policy for custodial credit risk. The Authority's deposits are held in a trust and clearing account at M&T Bank.

At June 30, 2013, the Authority's bank balances totaled $2,448,544. Of this balance, $121,874 was from a clearing account that was fully insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of $2,326,670 was held in a trust account with Manufacturers and Traders Trust Company and consisted of Wilmington US Government Money Market Fund which is rated Aaa by Moody's.

Notes to Financial Statements

June 30, 2013

NOTE 3 - DUE FROM OTHER GOVERNMENTS

Due from other governments consisted of the following at June 30, 2013:

United States Department of Commerce's National Telecommunications and Information Administration (NTIA)	**$ 95,820**
State of Maine Department of Health and Human Services	**24,038**
	$119,858

NOTE 4 - DUE TO OTHER GOVERNMENTS

Due to other governments consisted of the following at June 30, 2013:

State of Maine Office of Information Technologies	**$46,634**
State of Maine Department of Education	**21,939**
	$68,573

NOTE 5 - ECONOMIC DEPENDENCY

Three communication service providers consist of 59% of the Authority's total assessment revenue for the year ended June 30, 2013.

NOTE 6 - COMMITMENTS

The Authority has contracted with a vendor to provide fund administration services over a three year period ending June 30, 2014. As of June 30, 2013, the total commitment to this vendor is $35,940. The Authority has also contracted with a vendor for a mapping and inventory of broadband service project and a planning project through December 31, 2014. The total commitment to the vendor for both projects as of June 30, 2013 is approximately $722,000.

The Authority has entered into Memorandums of Understanding for NTIA grant related projects with the State of Maine Department of Education for the Broadband Technical Assistance Project and with the State of Maine State Planning Office for the Broadband Capacity Project. The State Planning Office has since been eliminated from state government. As a result, the Authority has contracted with a vendor to provide the services. The total commitment to this vendor as of June 30, 2013 is $102,200.

The Authority awards grants to awardees to provide high-speed internet service to customers in unserved areas in Maine. The Authority awards 25% of the grant to the awardee upon approval and subsequently reimburses the awardee for costs incurred up to the total award amount. As of June 30, 2013, the total amount of grants to be paid on approved agreements was approximately $2,735,200.

Notes to Financial Statements

June 30, 2013

NOTE 7 - CONTINGENCIES

The Authority participates in a federal grant program, which is governed by various rules and regulations of the respective oversight agency. Costs charged to the program and claims for reimbursement are subject to audit and adjustment by the respective oversight agency. Therefore, to the extent that the Authority has not complied with rules and regulations governing the program, refunds of any money received may be required. In the opinion of the Authority, there is no significant contingent liability relating to compliance with the rules and regulations governing the program. Additionally, no determination has been made with respect to refunding of interest earned on federal funds. The amount of refund, if any, would be immaterial to the financial statements taken as a whole. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 8 - ECONOMIC IMPACT

During the year ended June 30, 2013, the Authority requested the State of Maine Public Utilities Commission (PUC) to review the non-payment of the BBSF by a competitive local exchange carrier (CLEC). The CLEC has asserted that the BBSF is unconstitutional, discriminating and anti-competitive. The PUC has not yet provided an opinion as of the date on which the financial statements were available to be issued.

NOTE 9 - TRANSACTIONS WITH THE PRIMARY GOVERNMENT

The Authority reimburses the State of Maine for salaries and benefits of its management personnel as well as map hosting and certain administrative expenses. In addition, the Authority pays the State of Maine to perform certain NTIA grant related projects. The total amount of expenditures to the State of Maine for the year ended June 30, 2013 is as follows:

Department of Education - technical assistance	**$ 94,071**
Office of Information Technology - technical assistance	**58,134**
Office of Information Technology - capacity building	**120,396**
Total intra-entity grants	**272,601**
Office of Information Technology - management	**306,911**
	$579,512

Budgetary Comparison Schedule - Special Revenue Fund

Year Ended June 30, 2013

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Federal Grant			
National Telecommunications and Information Administration	$ 1,136,190	$ 958,112	$ (178,078)
Assessments	1,350,000	1,291,649	(58,351)
Broadband sustainability fee	40,000	5,921	(34,079)
Contracts		24,038	24,038
Miscellaneous		2,908	2,908
Interest	350	292	(58)
Total Revenues	2,526,540	2,282,920	(243,620)
Expenditures			
Management - Office of Information Technology	280,825	306,911	(26,086)
Purchased professional and technical services			
Contract services			
Broadband infrastructure grants	1,800,000	1,901,032	(101,032)
Broadband sustainability grants	10,000		10,000
Mapping	533,851	406,843	127,008
Planning	116,750	186,982	(70,232)
Capacity building	311,599	252,273	59,326
Technical assistance	157,490	152,205	5,285
GEM software	16,500	4,500	12,000
Fund administration	35,940	30,620	5,320
Professional fees	24,000	27,770	(3,770)
Bank fees	5,000	5,320	(320)
Miscellaneous	5,000	3,063	1,937
Total Expenditures	3,296,955	3,277,519	19,436
Deficiency of Revenues over Expenditures	(770,415)	(994,599)	(224,184)
Fund Balance, Beginning	3,522,369	3,522,369	-
Fund Balance, Ending	$ 2,751,954	$ 2,527,770	$ (224,184)

Combining Schedule of Revenues, Expenditures and Change in Fund Balance - Special Revenue Fund

Year Ended June 30, 2013

	General and Administrative	Grants for Broadband Expansion	Broadband Sustainability	Mapping and Inventory	Planning	Capacity Building	Technical Assistance	Total
Revenues								
Federal Grant								
National Telecommunications and Information Administration				$ 411,132	$ 142,502	$ 252,273	$ 152,205	$ 958,112
Assessments	$ 1,291,649							1,291,649
Broadband sustainability fee			$ 5,921					5,921
Contracts					24,038			24,038
Miscellaneous	2,908							2,908
Interest	292							292
Total Revenues	1,294,849		5,921	411,132	166,540	252,273	152,205	2,282,920
Expenditures								
Management - Office of Information Technology	306,911							306,911
Purchased professional and technical services								
Contract services								
Broadband infrastructure grants		$ 1,901,032						1,901,032
Mapping				406,843				406,843
Planning					186,982			186,982
Capacity building						131,877		131,877
GEM software				4,500				4,500
Fund administration	30,620							30,620
Professional fees	27,770							27,770
Bank fees	5,320							5,320
Miscellaneous	3,063							3,063
Total Expenditures	373,684	1,901,032		411,343	186,982	131,877		3,004,918
Excess (Deficiency) of Revenues Over Expenditures	921,165	(1,901,032)	5,921	(211)	(20,442)	120,396	152,205	(721,998)
Other Financing Sources (Uses)								
Intra-entity grants						(120,396)	(152,205)	(272,601)
Transfers in	5,921	1,901,032		211	20,442			1,927,606
Transfers out	(1,921,685)		(5,921)					(1,927,606)
	(1,915,764)	1,901,032	(5,921)	211	20,442	(120,396)	(152,205)	(272,601)
Net Change in Fund Balance	(994,599)							(994,599)
Fund Balance, Beginning	3,522,369							3,522,369
Fund Balance, Ending	$ 2,527,770	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,527,770

See independent auditors' report.