



(A component unit of the State of Maine)

Government Auditing Standards Report

June 30, 2017

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Independent Auditors' 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

To the Authority Members
ConnectME Authority
Augusta, Maine

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2017, and the related notes to the financial statements, which collectively comprise ConnectME Authority's basic financial statements, and have issued our report thereon dated October 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered ConnectME Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ConnectME Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of ConnectME Authority'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 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. 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompany schedule of findings as item 2017-001, that we consider to be a significant deficiency.



To the Authority Members
ConnectME Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ConnectME Authority's financial statements are free from 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*.

ConnectME Authority's Response to Finding

ConnectME Authority's response to the finding identified in our audit is described in the accompanying schedule of findings. ConnectME Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results of that testing, and not to provide an opinion on the effectiveness of 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.



Augusta, Maine
October 27, 2017

Schedule of Findings

Year Ended June 30, 2017

Internal Control over Financial Reporting

2017-001 – Allocation of Provider Assessment Revenue

Significant Deficiency

Criteria

Rolka Loube (Rolka) was the fund administrator for ConnectME Authority (the Authority). Historically, Rolka has utilized a database to accumulate and track assessment revenues reported and paid by providers. This database has parameters that will flag assessments which are significantly different from amounts reported in previous quarters and also helps to track providers who have either not reported, not paid, or both. This allows Rolka to accurately oversee the collection of assessment revenue from providers and determine if any significant receivables may exist from those providers who have not paid or have underpaid their assessment.

Condition

Through audit procedures performed, there were instances noted where assessment revenue was not accurately recorded to the trial balance.

Cause

The Authority changed fund administrators effective July 1, 2017. As a result of this change, Rolka did not utilize the assessment revenue database for tracking fiscal year fourth quarter assessments. Information received from providers was accumulated and a list of assessments received was kept outside of the database. This list was then used to record the receivable for fourth quarter assessments. By not utilizing the database to compare fourth quarter assessments to historical assessments collected, there was no control in place to ensure the Authority had a complete listing of receivables as of June 30, 2017.

Effect

Two instances were noted for which a provider assessment was not accurately reflected in assessment revenue and accounts receivable. In one instance, a provider used the incorrect rate to calculate the assessment owed to the Authority (providers also report revenue for another unrelated Maine fund for which Rolka provides the fund administration). The amount allocated to the Authority resulted in an overstatement of assessment revenue of \$79,004. In the other instance, a provider assessment which was reported and paid was omitted from the list used to track fourth quarter assessments in error. The missing assessment resulted in an understatement of assessment revenue of \$19,181. Adjusting entries were proposed by the auditors and recorded by the Authority for both misstatements. In both instances, utilizing the database for the fourth quarter would have likely flagged the errors. The first would have been flagged due to an amount being reported that was significantly different from recent historical quarters, and the second would have been flagged as a provider which had not filed or paid for the fourth quarter assessment. Those procedures would have enabled Rolka and the Authority to properly follow up on the errors with the providers and make the necessary adjustments to accurately record assessment revenue and accounts receivable.

Schedule of Findings - Continued

Year Ended June 30, 2017

Internal Control over Financial Reporting - Continued

2017-001 – Allocation of Provider Assessment Revenue - Continued

Recommendation

In the case of a change in fund administrators, the Authority should take measures necessary to ensure that the cutoff of assessment revenue around the time of the transition is accurate, and that proper controls remain in place during the transition. Continued use of the assessment revenue database for the fourth quarter would have ensured that assessments for that period were accurately reflected. We also recommend that the Authority work with the new fund administrator to develop controls and procedures to monitor provider assessment revenue reported, payments received and the completeness of assessment receivables to be collected.

View of Responsible Officials and Planned Corrective Actions

ConnectME Authority agrees with the finding. See the Authority's corrective action plan for planned procedures to be implemented.

Compliance and Other Matters

No matters reported for the year ended June 30, 2017



CONNECTME
Authority

(A component unit of the State of Maine)

Financial Report

June 30, 2017

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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, 2017, and the related notes to the financial statements, which collectively comprise ConnectME 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2017, 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.



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 18, 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.

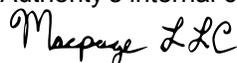
Other Information

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 19 is presented for purposes 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017, on our consideration of ConnectME Authority'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 solely 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 effectiveness of ConnectME Authority's 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 ConnectME Authority's internal control over financial reporting and compliance.



Augusta, Maine
October 27, 2017

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, 2017. 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-A 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 seven members, four of which are appointed by the Governor of the State of Maine.

In accordance with 35-A MRSA §9204-A (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 rule 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-A (4), the Authority is directed to expand the availability of broadband service to residential and small business customers in unserved or underserved areas by identifying, developing and providing funding for broadband investments in unserved and underserved communities. To achieve this objective, the Authority has established a grant program entitled Funds for Broadband Infrastructure Projects. Additionally, under 35-A MRSA §9204-A (3), the Authority is directed to provide technical and financial assistance to communities in the State that include unserved and underserved areas to identify the need for broadband infrastructure and services and develop and implement plans to meet those needs. To achieve this objective, the Authority has established a grant program entitled Community Broadband Planning Grants.

The broadband sustainability fee (BBSF) was intended to fund broadband infrastructure projects of incumbent local exchange carriers (ILEC) by imposing a fee on the competitive local exchange carriers (CLEC)s who contract for fiber capacity from the Maine Fiber Company. The BBSF was administered by the Authority under 35-A, M.R.S.A. Section 9216. Effective October 15, 2015, LD 465 was passed to eliminate the BBSF.

Financial Highlights

The Authority's program revenues and expenditures in the Statement of Activities were \$1,361,948 and \$1,699,926, respectively.

The Authority's net position as of June 30, 2017 was \$1,270,545. The term "net position" refers to the difference between assets less deferred inflows of resources and liabilities. Net position was all restricted as of June 30, 2017. The change in net position for the year ended June 30, 2017 was a decrease of \$337,117.

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.

Management's Discussion and Analysis

Overview of the Financial Statements - Continued

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.

The primary adjustment to convert the fund statements to the accrual basis of accounting is the accounting for accounts receivable and unearned 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

	2017	2016	% Change
Assets			
Cash and cash equivalents	\$1,102,982	\$1,379,535	-20%
Other assets	<u>329,608</u>	<u>307,987</u>	<u>7%</u>
Total Assets	<u>\$1,432,590</u>	<u>\$1,687,522</u>	<u>-15%</u>
Liabilities			
Accounts payable	\$ 154,026	\$ 76,060	103%
Other liabilities	<u>8,019</u>	<u>3,800</u>	<u>111%</u>
Total Liabilities	<u>162,045</u>	<u>79,860</u>	<u>103%</u>
Fund Balance - Restricted	<u>1,270,545</u>	<u>1,607,662</u>	<u>-21%</u>
Total Liabilities and Fund Balance	<u>\$1,432,590</u>	<u>\$1,687,522</u>	<u>-15%</u>

Two factors contributed to the decrease in the fund balance. First, 2017 saw a large increase in commitments to both community planning and infrastructure grants, resulting in a decrease in cash in the fund. Also a factor was early payment of several grant projects, further contributing to the decrease in available cash as well as an increase in accounts payable for those payments made shortly after year-end.

Management's Discussion and Analysis

Financial Analysis - Continued

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

	2017	2016	% Change
Revenues			
Federal grants	\$ 171,500	\$ 477,166	-64%
Assessments	1,190,448	1,206,709	-1%
Other	<u>861</u>	<u>534,530</u>	<u>100%</u>
Total Revenues	<u>1,362,809</u>	<u>2,218,405</u>	<u>-39%</u>
Expenditures			
Management	337,213	489,549	-31%
Contract services	1,355,699	1,809,100	-25%
Other	<u>7,014</u>	<u>29,662</u>	<u>-76%</u>
Total Expenditures	<u>1,699,926</u>	<u>2,328,311</u>	<u>-27%</u>
Deficiency of Revenues over Expenditures	(337,117)	(109,906)	-207%
Fund Balance, Beginning	<u>1,607,662</u>	<u>1,717,568</u>	<u>-6%</u>
Fund Balance, Ending	<u>\$1,270,545</u>	<u>\$1,607,662</u>	<u>-21%</u>

Three key components to the decrease in the fund balance are: the revenue from the federal SLIGP (FirstNet) grant is less as the grant is nearly spent down; the elimination of the Broadband Sustainability Fee affecting both other revenues and contract services expenditures; and a decrease in management expenditures due to the retirement of the Executive Director in December of 2016.

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, 2017.

Budgetary Comparison Schedule

	Final Budget	Actual 2017	Variance Positive (Negative)
Revenues			
Federal grants	\$ 153,870	\$ 171,500	11%
Assessments	1,182,575	1,190,448	-1%
Other	<u>450</u>	<u>861</u>	<u>91%</u>
Total Revenues	<u>1,336,895</u>	<u>1,362,809</u>	<u>2%</u>
Expenditures			
Management	308,285	337,213	-9%
Contract services	1,128,466	1,355,699	-20%
Other	<u>15,000</u>	<u>7,014</u>	<u>53%</u>
Total Expenditures	<u>1,451,751</u>	<u>1,699,926</u>	<u>-17%</u>
Deficiency of Revenues over Expenditures	<u>\$ (114,856)</u>	<u>\$ (337,117)</u>	<u>-194%</u>

Management's Discussion and Analysis

Financial Analysis - Continued

The primary factor in the discrepancy between the budgeted and actual amounts is the variability in the timing of both community planning and infrastructure grant disbursements. These disbursements are made in response to requests from grantees based on meeting grant commitments. The Authority can neither control nor predict when these requests will be made.

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, audit services, services related to its First Responder Network grant, and grants for broadband planning and expansion with various end dates through December 11, 2021. The total amount of these commitments as of June 30, 2017 is approximately \$1,270,000.

During the year ended June 30, 2015, the Authority and the State of Maine filed a complaint in Maine Superior Court regarding the non-payment of the BBSF by a CLEC. The CLEC has asserted that the BBSF is unconstitutional, discriminatory, and anti-competitive. The complaint requests full payment of the BBSF in accordance with Maine Statute 35-A MRSA §9216. A counterclaim by the CLEC requests for repayment of \$15,000 previously paid into the BBSF. On October 5, 2016, the Court issued its decision awarding judgment to the Authority for its claims, plus interest and costs. The decision was under appeal by the CLEC. On October 10, 2017, the Supreme Court affirmed the judgment issued on October 5, 2016.

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 provide readers with a general overview of ConnectME Authority's finances and show accountability for expenditures relating to its program activities. If you have questions regarding this report or need additional information, please contact the Program Director of ConnectME Authority.

Statement of Net Position

June 30, 2017

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,102,982
Accounts receivable	715,159
Due from other governments	21,007
Other receivable	294
Total Assets	<u>1,839,442</u>
LIABILITIES	
Accounts payable	154,026
Accrued liabilities	8,019
Total Liabilities	<u>162,045</u>
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue	<u>406,852</u>
NET POSITION	
Restricted for:	
Advanced communications technology infrastructure	<u><u>\$ 1,270,545</u></u>

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

Statement of Activities

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants, Assessments, and Contributions	Capital Grants and Contributions
Governmental Activities				
General and administrative	\$ 397,127		\$ 1,190,448	\$ 793,321
Grants for broadband expansion	933,115			(933,115)
Grants for community broadband planning	175,115			(175,115)
Mapping and inventory	22,850			(22,850)
First Responder Network	171,719		171,500	(219)
Total Governmental Activities	\$ 1,699,926	\$ -	\$ 1,361,948	\$ (337,978)
General revenues:				
Interest income				861
Total general revenues				861
Change in Net Position				(337,117)
Net Position, Beginning				1,607,662
Net Position, Ending				\$ 1,270,545

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

Balance Sheet - Governmental Fund

June 30, 2017

	Special Revenue Fund
ASSETS	
Cash and cash equivalents	\$ 1,102,982
Accounts receivable	308,307
Due from other governments	21,007
Other receivable	294
Total Assets	<u>\$ 1,432,590</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 154,026
Accrued liabilities	8,019
Total Liabilities	<u>162,045</u>
 Fund Balance	
Restricted for:	
Advanced communications technology infrastructure	<u>1,270,545</u>
Total Liabilities and Fund Balance	<u>\$ 1,432,590</u>

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, 2017

Governmental Fund Balance	\$ 1,270,545
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.	406,852
Deferred inflows of resources from the broadband sustainability fee in which resources have not been received before any eligibility requirements have been met by the Authority and therefore, are reported as unearned revenue.	<u>(406,852)</u>
Net Position of Governmental Activities	<u><u>\$ 1,270,545</u></u>

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

Year Ended June 30, 2017

	Special Revenue Fund
Revenues	
Federal Grants	
First Responder Network	\$ 171,500
Assessments	1,190,448
Interest	861
Total Revenues	1,362,809
Expenditures	
Management	337,213
Purchased professional and technical services	
Contract services	
Broadband infrastructure grants	933,115
Community broadband planning grants	175,115
Mapping	22,850
First Responder Network	171,719
Fund administration	27,150
Professional fees	25,750
Bank fees	4,877
Miscellaneous	2,137
Total Expenditures	1,699,926
Deficiency of Revenues Over Expenditures/Net Change in Fund Balance	(337,117)
Fund Balance, Beginning	1,607,662
Fund Balance, Ending	\$ 1,270,545

See independent auditors' report.

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

Notes to Financial Statements

June 30, 2017

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 seven members, four 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 rule 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, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reporting Entity - Continued

Under 35-A MRSA §9204-A (4), the Authority is directed to expand the availability of broadband service to residential and small business customers in unserved or underserved areas by identifying, developing and providing funding for broadband investments in unserved and underserved communities. To achieve this objective, the Authority has established a grant program entitled Funds for Broadband Infrastructure Projects. As of June 30, 2017, the Authority has awarded eleven 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.

Under 35-A MRSA §9204-A (3), the Authority is directed to provide technical and financial assistance to communities in the State that include unserved and underserved areas to identify the need for broadband infrastructure and services and develop and implement plans to meet those needs. To achieve this objective, the Authority has established a grant program entitled Community Broadband Planning Grants. As of June 30, 2017, the Authority has awarded two rounds of grants to fund awardees, through an application and approval process, with grants designed to assist municipalities, nonprofit organizations or local regional development programs in developing plans to expand broadband in unserved or underserved areas.

To provide funding for the Authority, 35-A MRSA §9211 established the ConnectME Fund as a non-lapsing fund for the purpose 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 had 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 was subject to the broadband sustainability fee. Effective October 15, 2015, LD 465 was passed to eliminate the BBSF. See Note 7 for a description of the only remaining activity under the BBSF.

35-A MRSA §9211-A establishes the Municipal Gigabit Broadband Network Access Fund for the purpose of providing grants to communities, regional partnerships and municipalities to support a municipal gigabit fiber-optic broadband network in their regions. There was no activity under this fund for the year ended June 30, 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 purpose 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 service provider assessments.

Notes to Financial Statements

June 30, 2017

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 BBSF and have been adjusted for all known uncollectible accounts. No allowance for doubtful accounts is considered necessary at June 30, 2017.

Notes to Financial Statements

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Unearned 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. Unearned revenue consists of the unspent broadband sustainability funds (related to the litigation describe in Note 7) as of June 30, 2017.

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 less deferred inflows of resources 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, 2017

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.

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, 2017, the Authority's bank balances totaled \$1,102,982. Of this balance, \$19,093 was from a clearing account that was fully insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of \$1,083,889 was held in a trust account with Manufacturers and Traders Trust Company and consisted of a Wilmington U.S. Government Money Market Fund which is rated AAA by Moody's.

NOTE 3 - DUE FROM OTHER GOVERNMENTS

Due from other governments consisted of the following at June 30, 2017:

United States Department of Commerce's National Telecommunications and Information Administration (NTIA)	<u>\$21,007</u>
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NOTE 4 - ECONOMIC DEPENDENCY

Three communication service providers consist of 69% of the Authority's total assessment revenue for the year ended June 30, 2017. In addition, federal grant funds received from NTIA consist of 13% of the Authority's total revenue for the year ended June 30, 2017.

NOTE 5 - COMMITMENTS

The Authority has contracted with a vendor to provide fund administration services over a two year period ending June 30, 2019. As of June 30, 2017, the total commitment to this vendor was \$51,000. The Authority has contracted with a vendor to provide audit services over a four year period ending June 30, 2019. As of June 30, 2017, the total commitment to this vendor was \$73,500. The Authority has contracted with a vendor for its First Responder Network grant through December 31, 2018. The total commitment to the vendor as of June 30, 2017 was approximately \$24,500. The Authority has contracted with a vendor for its NTIA mapping grant through December 11, 2021. The total commitment to the vendor as of June 30, 2017 was approximately \$192,000.

The Authority awards grants to awardees to plan and 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, 2017, the total amount of grants to be paid on approved agreements was approximately \$929,000.

Notes to Financial Statements

June 30, 2017

NOTE 6 - 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 7 - LITIGATION

During the year ended June 30, 2015, the Authority and the State of Maine filed a complaint in Maine Superior Court regarding the non-payment of the BBSF by a competitive local exchange carrier (CLEC). The CLEC has asserted that the BBSF is unconstitutional, discriminatory and anti-competitive. The complaint requests full payment of the BBSF in accordance with Maine statute 35-A MRSA §9216. A counterclaim by the CLEC requests for repayment of \$15,000 previously paid into the BBSF. On October 5, 2016, the Court issued its decision awarding judgment to the Authority for its claims, plus interest and costs. The decision was under appeal by the CLEC. On October 10, 2017, the Supreme Court affirmed the judgment issued on October 5, 2016.

NOTE 8 - 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. The total amount of expenditures to the State of Maine for the year ended June 30, 2017 is as follows:

Office of Information Technology - management	\$401,017
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Budgetary Comparison Schedule - Special Revenue Fund

Year Ended June 30, 2017

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Federal Grants			
First Responder Network	\$ 153,870	\$ 171,500	\$ 17,630
Assessments	1,182,575	1,190,448	7,873
Interest	450	861	411
Total Revenues	<u>1,336,895</u>	<u>1,362,809</u>	<u>25,914</u>
Expenditures			
Management	308,285	337,213	(28,928)
Purchased professional and technical services			
Contract services			
Broadband infrastructure grants	750,000	933,115	(183,115)
Community broadband planning grants	125,000	175,115	(50,115)
Mapping	35,000	22,850	12,150
First Responder Network	153,870	171,719	(17,849)
Fund administration	37,896	27,150	10,746
Professional fees	26,700	25,750	950
Bank fees	5,000	4,877	123
Miscellaneous	10,000	2,137	7,863
Total Expenditures	<u>1,451,751</u>	<u>1,699,926</u>	<u>(248,175)</u>
Deficiency of Revenues over Expenditures	(114,856)	(337,117)	(222,261)
Fund Balance, Beginning	<u>1,607,662</u>	<u>1,607,662</u>	
Fund Balance, Ending	<u>\$ 1,492,806</u>	<u>\$ 1,270,545</u>	<u>\$ (222,261)</u>

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

Year Ended June 30, 2017

	<u>General and Administrative</u>	<u>Grants for Broadband Expansion</u>	<u>Grants for Community Planning</u>	<u>Mapping and Inventory</u>	<u>First Responder Network</u>	<u>Total</u>
Revenues						
Federal Grants						
First Responder Network					\$ 171,500	\$ 171,500
Assessments	\$ 1,190,448					1,190,448
Interest	861					861
Total Revenues	<u>1,191,309</u>				<u>171,500</u>	<u>1,362,809</u>
Expenditures						
Management	337,213					337,213
Purchased professional and technical services						
Contract services						
Broadband infrastructure grants		\$ 933,115				933,115
Community broadband planning grants			\$ 175,115			175,115
Mapping				\$ 22,850		22,850
First Responder Network					171,719	171,719
Fund administration	27,150					27,150
Professional fees	25,750					25,750
Bank fees	4,877					4,877
Miscellaneous	2,137					2,137
Total Expenditures	<u>397,127</u>	<u>933,115</u>	<u>175,115</u>	<u>22,850</u>	<u>171,719</u>	<u>1,699,926</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>794,182</u>	<u>(933,115)</u>	<u>(175,115)</u>	<u>(22,850)</u>	<u>(219)</u>	<u>(337,117)</u>
Other Financing Sources (Uses)						
Transfers in		933,115	175,115	22,850	219	1,131,299
Transfers out	(1,131,299)					(1,131,299)
	<u>(1,131,299)</u>	<u>933,115</u>	<u>175,115</u>	<u>22,850</u>	<u>219</u>	
Net Change in Fund Balance	(337,117)					(337,117)
Fund Balance, Beginning	<u>1,607,662</u>					<u>1,607,662</u>
Fund Balance, Ending	<u>\$ 1,270,545</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,270,545</u>



STATE OF MAINE
CONNECTME AUTHORITY
145 STATEHOUSE STATION
AUGUSTA, MAINE
04333-0145

DICK THOMPSON
CHAIR

SANDRA SAUNDERS
RALPH JOHNSON
DENISE GARLAND
SUSAN WOODS
BRUCE WILLIAMSON
AUTHORITY MEMBERS

CORRECTIVE ACTION PLAN

October 27, 2017

State of Maine
Office of the State Controller

ConnectME Authority respectfully submits the following corrective action plan for the year ended June 30, 2017.

Name and address of independent public accounting firm:

Macpage LLC
One Market Square
Augusta, Maine 04330

Audit period: July 1, 2016 – June 30, 2017

The finding from the June 30, 2017 schedule of findings is discussed below. The finding is numbered consistently with the number assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2017-001 Allocation of Provider Assessment Revenue

Recommendation:

In the case of a change in fund administrators, the Authority should take measures necessary to ensure that the cutoff of assessment revenue around the time of the transition is accurate, and that proper controls remain in place during the transition. Continued use of the assessment revenue database for the fourth quarter would have ensured that assessments for that period were accurately reflected. We also recommend that the Authority work with the new fund administrator to develop controls and procedures to monitor provider assessment revenue reported, payments received and the completeness of assessment receivables to be collected.

Unaudited

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Corrective Action Plan:

In preparation for any change in fund administrator, Authority staff will work with the existing fund administrator to ensure that work practices remain consistent throughout the transition period.

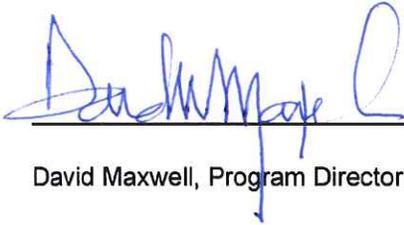
Regarding reporting of assessment revenue, Authority staff intends to work with the fund administrator to review the list of current providers and develop a tracking and reporting mechanism to ensure all assessments due have been collected.

Contact persons responsible for corrective action:

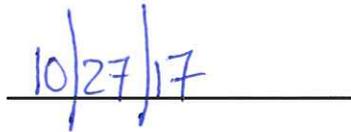
David Maxwell, Program Director

If the State of Maine Office of the State Controller has questions regarding this plan, please call David Maxwell at 207-624-8800.

Sincerely,



David Maxwell, Program Director



Date