

CONNECTME

(A component unit of the State of Maine)

Government Auditing Standards Report

June 30, 2018

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Independent Auditor's 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, 2018, 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 26, 2018.

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 accompanying schedule of findings as item 2018-001, 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.

Wipfli LLP

Augusta, Maine
October 26, 2018

Schedule of Findings

Year Ended June 30, 2018

Internal Control over Financial Reporting

2018-001 – Reconciliation of Grant Disbursements to Grants Awarded

Significant Deficiency

Criteria

ConnectME Authority (the Authority) awards grants for broadband infrastructure and community broadband planning projects to providers based on applications submitted by the providers which include the total estimated cost of the project and are approved by the Members of the Authority. Upon commencement of the project by the provider, 25% of the total grant award is remitted to the provider by the Authority. From there, the remaining grant award is remitted to the provider upon various stages of project completion, for which the costs incurred must be substantiated by the provider. The Authority tracks disbursements under the grant award made to the provider and reconciles those disbursements to the total grant award to determine when a grant award has been completed.

Condition

Through audit procedures, an overpayment of a grant award to a provider was noted for \$41,980.

Cause

During January, 2018, staffing of the Authority changed which resulted in a new individual tracking and reconciling grant disbursements. While the reconciliation being used was transitioned from the previous individual, the timing of the transition resulted in an oversight error related to one of the grant awards. In this instance, a provider made a request in February 2018 for a final grant disbursement which had already been requested and paid in August 2017.

Effect

As a result of the transition and oversight error, a duplicate grant disbursement for \$41,980 was sent to the provider. The error was discovered during audit procedures and the auditor notified Authority staff. Upon review of the relevant information, the Authority contacted the provider to notify them of the error and at that time the funds were returned to the Authority.

Recommendation

We recommend that the Authority take measures to ensure that grant disbursements are accurately reconciled to grant awards to ensure that providers receive the correct amount. We also recommend that an individual separate from the individual preparing the reconciliation review it for accuracy.

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, 2018.



Chair – Dick Thompson

Authority Members - Denise Garland - Susan Woods - Bruce Williamson - Sandy Saunders - Ralph Johnson

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2018

Internal Control over Financial Reporting

2017-001 – Allocation of Provider Assessment Revenue

Significant Deficiency

Condition

Through audit procedures performed, there were instances noted where assessment revenue was not accurately recorded to the trial balance. These errors were due to the fact that the previous fund administrator did not utilize the assessment revenue database for the fourth quarter which resulted in not having proper controls in place to ensure the Authority had a complete listing of receivables as of June 30, 2017.

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.

Status

Management has implemented the recommendations. No similar matters were noted in the June 30, 2018 audit.

CONNECTME

(A component unit of the State of Maine)

Financial Report

June 30, 2018

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Independent Auditor's 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, 2018, 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.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2018, 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 17, 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 18 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 26, 2018, 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.

Wiggin LLP

Augusta, Maine
October 26, 2018

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, 2018. 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.

The Authority has created 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 assists 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.

Financial Highlights

The Authority's program revenues and expenditures in the Statement of Activities were \$1,299,109 and \$1,239,649 respectively.

The Authority's net position as of June 30, 2018 was \$1,375,558. 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, 2018. The change in net position for the year ended June 30, 2018 was an increase of \$105,013.

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 10 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 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 there are no adjustments between the fund financial statements and the government-wide financial statements.

Balance Sheet - Governmental Fund

	2018	2017	% Change
Assets			
Cash and cash equivalents	\$1,614,092	\$1,102,982	46%
Other assets	<u>332,236</u>	<u>329,608</u>	1%
Total Assets	<u>\$1,946,328</u>	<u>\$1,432,590</u>	<u>36%</u>
Liabilities			
Accounts payable	\$ 115,813	\$ 154,026	-25%
Due to other governments	79,004		N/A
Other liabilities	<u>15,323</u>	<u>8,019</u>	91%
Total Liabilities	<u>210,140</u>	<u>162,045</u>	<u>30%</u>
Deferred Inflows of Resources			
Unearned revenue	<u>360,630</u>		N/A
Fund Balance - Restricted	<u>1,375,558</u>	<u>1,270,545</u>	<u>8%</u>
Total Liabilities and Fund Balance	<u>\$1,946,328</u>	<u>\$1,432,590</u>	<u>36%</u>

Unearned revenues are the broadband sustainability funds (BBSF). These are grant funds that will be given to the appropriate providers for qualifying projects. All funds will be disbursed by December 2019.

The due to other governments line item in the liabilities section references funds that were applied to ConnectME but are Maine Telecommunication Education Access Funds. Those funds will be transferred to the appropriate account.

Management's Discussion and Analysis

Financial Analysis - Continued

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

	2018	2017	% Change
Revenues			
Federal grants	\$ 54,777	\$ 171,500	-68%
Assessments	1,198,110	1,190,448	1%
Other	<u>91,775</u>	<u>861</u>	<u>10,559%</u>
Total Revenues	<u>1,344,662</u>	<u>1,362,809</u>	<u>-1%</u>
Expenditures			
Management	285,768	337,213	-15%
Contract services	939,067	1,355,699	-31%
Other	<u>14,814</u>	<u>7,014</u>	<u>111%</u>
Total Expenditures	<u>1,239,649</u>	<u>1,699,926</u>	<u>-27%</u>
Excess (Deficiency) of Revenues over Expenditures	105,013	(337,117)	131%
Fund Balance, Beginning	<u>1,270,545</u>	<u>1,607,662</u>	<u>-21%</u>
Fund Balance, Ending	<u>\$1,375,558</u>	<u>\$1,270,545</u>	<u>8%</u>

The Federal grant is for the FirstNet project. The amount is lower in 2018 as the grant ended early in the year. Additionally, the interest and funds that were not applied for from the BBSF appear as other revenue. The 2018 management line item reflects staff transitions and only one employee for a portion of the year. Contract services is the category that includes planning and infrastructure grant awards. The total was lower in 2018 vs 2017 due to timing of invoicing and lower totals for disbursement.

The Authority's budgetary basis is the modified accrual basis of accounting used for the fund financial statements, with the exception of accounting for the deferred inflows of resources related to the BBSF. The following is a condensed analysis of the Authority's final budget as compared to actual amounts for the year ended June 30, 2018.

Budgetary Comparison Schedule

	Final Budget	Actual 2018	Variance Positive (Negative)
Revenues			
Federal grants	\$ 75,784	\$ 54,777	-28%
Assessments	1,149,475	1,198,110	4%
Other	<u>452,699</u>	<u>452,405</u>	<u>0%</u>
Total Revenues	<u>1,677,958</u>	<u>1,705,292</u>	<u>0%</u>
Expenditures			
Management	236,045	285,768	-21%
Contract services	1,068,982	939,067	12%
Other	<u>5,514</u>	<u>14,814</u>	<u>-169%</u>
Total Expenditures	<u>1,310,541</u>	<u>1,239,649</u>	<u>5%</u>
Excess of Revenues over Expenditures, Budgetary	<u>\$ 367,417</u>	465,643	<u>27%</u>
Less Broadband Sustainability Fee Unearned Revenue		<u>360,630</u>	
Excess of Revenues over Expenditures, GAAP		<u>\$ 105,013</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. The other primary delta between budget and actual is in the timing of the transition of exiting staff and associated payouts.

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, 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, 2018 is approximately \$1,089,750.

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. On October 20, 2017, payment in full for the unpaid BBSF was received. The funds will be used for their original intended purposes.

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 Director of ConnectME Authority.

Statement of Net Position

June 30, 2018

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,614,092
Accounts receivable	332,236
Total Assets	<u>1,946,328</u>
LIABILITIES	
Accounts payable	115,813
Due to other governments	79,004
Accrued liabilities	15,323
Total Liabilities	<u>210,140</u>
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue	<u>360,630</u>
NET POSITION	
Restricted for:	
Advanced communications technology infrastructure	<u>\$ 1,375,558</u>

See independent auditor's report.

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

Statement of Activities

Year Ended June 30, 2018

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Change in Net Position
			Operating Grants, Assessments, and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
General and administrative	\$ 375,875		\$ 1,198,110		\$ 822,235
Grants for broadband expansion	634,876				(634,876)
Grants for community broadband planning	151,672				(151,672)
Broadband sustainability			46,222		46,222
Mapping and inventory	25,550				(25,550)
First Responder Network	51,676		54,777		3,101
Total Governmental Activities	<u>\$ 1,239,649</u>	<u>\$ -</u>	<u>\$ 1,299,109</u>	<u>\$ -</u>	<u>59,460</u>
General revenues:					
Interest income					45,553
Total general revenues					<u>45,553</u>
Change in Net Position					105,013
Net Position, Beginning					<u>1,270,545</u>
Net Position, Ending					<u>\$ 1,375,558</u>

See independent auditor's report.

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

Balance Sheet - Governmental Fund

June 30, 2018

	Special Revenue Fund
ASSETS	
Cash and cash equivalents	\$ 1,614,092
Accounts receivable	332,236
Total Assets	<u>\$ 1,946,328</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 115,813
Due to other governments	79,004
Accrued liabilities	15,323
Total Liabilities	<u>210,140</u>
Deferred Inflows of Resources	
Unearned revenue	<u>360,630</u>
Fund Balance	
Restricted for:	
Advanced communications technology infrastructure	<u>1,375,558</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 1,946,328</u>

See independent auditor's 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, 2018

	Special Revenue Fund
Revenues	
Federal Grants	
First Responder Network	\$ 54,777
Assessments	1,198,110
Broadband sustainability fee	46,222
Interest	45,553
Total Revenues	1,344,662
Expenditures	
Management	285,768
Purchased professional and technical services	
Contract services	
Broadband infrastructure grants	634,876
Community broadband planning grants	151,672
Mapping	25,550
First Responder Network	51,676
Fund administration	25,500
Professional fees	49,793
Bank fees	1,637
Miscellaneous	13,177
Total Expenditures	1,239,649
Excess of Revenues Over Expenditures/Net Change in Fund Balance	105,013
Fund Balance, Beginning	1,270,545
Fund Balance, Ending	\$ 1,375,558

See independent auditor's report.

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

Notes to Financial Statements

June 30, 2018

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-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.

The Authority created 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 assists 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, 2018

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, 2018, the Authority has awarded twelve 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, 2018, the Authority has awarded three 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, 2018.

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, 2018

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, 2018.

Notes to Financial Statements

June 30, 2018

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, 2018.

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, 2018

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, with the exception of accounting for the deferred inflows of resources related to the BBSF.

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 checking account and an Insured Cash Sweep account at Androscoggin Savings Bank.

At June 30, 2018, the Authority's bank balances totaled \$1,614,092. Of this balance, a portion was held in a checking account that was fully insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balance was held by Androscoggin Savings Bank in an Insured Cash Sweep account in which the bank, as agent and custodian, places the balance in deposit accounts in various FDIC-insured institutions with each deposit account below the FDIC maximum.

NOTE 3 - DUE TO OTHER GOVERNMENTS

Due to other governments consisted of the following at June 30, 2018:

State of Maine Public Utilities Commission	
Maine Telecommunications Education Access Fund	<u>\$79,004</u>

NOTE 4 - ECONOMIC DEPENDENCY

Three communication service providers consist of 70% of the Authority's total assessment revenue for the year ended June 30, 2018.

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, 2018, the total commitment to this vendor was \$25,500. The Authority has contracted with a vendor to provide audit services over a four year period ending June 30, 2019. As of June 30, 2018, the total commitment to this vendor was \$47,250. 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, 2018 was approximately \$170,000.

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, 2018, the total amount of grants to be paid on approved agreements was approximately \$847,000.

Notes to Financial Statements

June 30, 2018

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 had asserted that the BBSF was unconstitutional, discriminatory and anti-competitive. The complaint requested full payment of the BBSF in accordance with Maine statute 35-A MRSA §9216. A counterclaim by the CLEC requested 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 appealed by the CLEC. On October 10, 2017, the Supreme Court affirmed the judgment issued on October 5, 2016. On October 20, 2017, payment in full for the unpaid BBSF was received. The funds will be used for their original intended purposes.

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, 2018 is as follows:

Office of Information Technology - management	\$239,622
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Budgetary Comparison Schedule - Special Revenue Fund

Year Ended June 30, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Federal Grants			
First Responder Network	\$ 75,784	\$ 54,777	\$ (21,007)
Assessments	1,149,475	1,198,110	48,635
Broadband sustainability fee	448,064	406,852	(41,212)
Interest	4,635	45,553	40,918
Total Revenues	<u>1,677,958</u>	<u>1,705,292</u>	<u>27,334</u>
Expenditures			
Management	236,045	285,768	(49,723)
Purchased professional and technical services			
Contract services			
Broadband infrastructure grants	752,813	634,876	117,937
Community broadband planning grants	159,172	151,672	7,500
Mapping	21,850	25,550	(3,700)
First Responder Network	72,683	51,676	21,007
Fund administration	23,375	25,500	(2,125)
Professional fees	39,089	49,793	(10,704)
Bank fees	1,637	1,637	
Miscellaneous	3,877	13,177	(9,300)
Total Expenditures	<u>1,310,541</u>	<u>1,239,649</u>	<u>70,892</u>
Excess (Deficiency) of Revenues Over Expenditures	367,417	465,643	98,226
Fund Balance, Beginning	<u>1,270,545</u>	<u>1,270,545</u>	
Fund Balance, Ending	<u>\$ 1,637,962</u>	<u>1,736,188</u>	<u>\$ 98,226</u>
Less broadband sustainability fee unearned revenue		<u>360,630</u>	
Fund Balance per Fund Financial Statement		<u>\$ 1,375,558</u>	

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

Year Ended June 30, 2018

	General and Administrative	Grants for Broadband Expansion	Grants for Community Planning	Broadband Sustainability	Mapping and Inventory	First Responder Network	Total
Revenues							
Federal Grants							
First Responder Network						\$ 54,777	\$ 54,777
Assessments	\$ 1,198,110						1,198,110
Broadband sustainability fee				\$ 46,222			46,222
Interest	45,553						45,553
Total Revenues	<u>1,243,663</u>			<u>46,222</u>		<u>54,777</u>	<u>1,344,662</u>
Expenditures							
Management	285,768						285,768
Purchased professional and technical services							
Contract services							
Broadband infrastructure grants		\$ 634,876					634,876
Community broadband planning grants			\$ 151,672				151,672
Mapping					\$ 25,550		25,550
First Responder Network						51,676	51,676
Fund administration	25,500						25,500
Professional fees	49,793						49,793
Bank fees	1,637						1,637
Miscellaneous	13,177						13,177
Total Expenditures	<u>375,875</u>	<u>634,876</u>	<u>151,672</u>		<u>25,550</u>	<u>51,676</u>	<u>1,239,649</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>867,788</u>	<u>(634,876)</u>	<u>(151,672)</u>	<u>46,222</u>	<u>(25,550)</u>	<u>3,101</u>	<u>105,013</u>
Other Financing Sources (Uses)							
Transfers in	49,323	634,876	151,672		25,550		861,421
Transfers out	(812,098)			(46,222)		(3,101)	(861,421)
	<u>(762,775)</u>	<u>634,876</u>	<u>151,672</u>	<u>(46,222)</u>	<u>25,550</u>	<u>(3,101)</u>	
Net Change in Fund Balance	105,013						105,013
Fund Balance, Beginning	<u>1,270,545</u>						<u>1,270,545</u>
Fund Balance, Ending	<u>\$ 1,375,558</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,375,558</u>

CONNECTME

Chair – Dick Thompson

Authority Members - Denise Garland - Susan Woods - Bruce Williamson - Ralph Johnson

CORRECTIVE ACTION PLAN

October 26, 2018

State of Maine

Office of the State Controller

ConnectME Authority respectfully submits the following corrective action plan for the year ended June 30, 2018.

Name and address of independent public accounting firm:

Wipfli/Macpage
One Market Square
Augusta, Maine 04330

Audit period: July 1, 2017 – June 30, 2018

The finding from the June 30, 2018 schedule of findings is discussed below. The finding is numbered consistently with the number assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT SIGNIFICANT DEFICIENCY

2018-001 Reconciliation of Grant Disbursements to Grants Awarded

Recommendation:

We recommend that the Authority take measures to ensure that grant disbursements are accurately reconciled to grant awards to ensure that providers receive the correct amount. We also recommend that an individual separate from the individual preparing the reconciliation review it for accuracy.

Corrective Action Plan:


The ConnectME Authority will have one master file that tracks grant awards and payments against the awards. Every 6 months, the Assistant Director, ConnectME will request grant payments for that period from the administrator (SOLIX). This report will be reconciled with the master tracking sheet to ensure ongoing accuracy.

Contact persons responsible for corrective action:

Heather Johnson, Director

If the State of Maine Office of the State Controller has questions regarding this plan, please call Heather Johnson at 207-215-9892.

Sincerely,

 10/19/18 _____

Heather Johnson, Director

Date