

Maine Connectivity Authority

**Basic Financial Statements, Management's
Discussion and Analysis and Additional Information**

*Year Ended June 30, 2022
With Independent Auditors' Report*

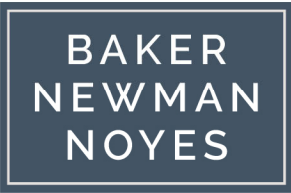
MAINE CONNECTIVITY AUTHORITY

**BASIC FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION
AND ANALYSIS AND ADDITIONAL INFORMATION**

For the Year Ended June 30, 2022

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Maine Connectivity Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Maine Connectivity Authority (the Authority), a component unit of the State of Maine, which comprise the statement of net position as of June 30, 2022, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2022, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 an opinion on the financial statements that comprise the Authority’s basic financial statements. The Schedule of Activities is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the information 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 September 29, 2022 on our consideration of the 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 the 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 the Authority’s internal control over financial reporting and compliance.

Baker Newman & Noyes LLC

Portland, Maine
September 29, 2022

MAINE CONNECTIVITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

As Management of the Maine Connectivity Authority (MCA or the Authority), we offer readers of MCA's financial statements this narrative overview and analysis of the financial activities of MCA for the fiscal year ended June 30, 2022. This section is not audited and represents the thoughts and opinions of management. As required, MCA's financial statements are presented in the manner prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34), as amended. 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

MCA was created in 2021 by an Act of the Maine Legislature (the Act), as a body corporate and politic, and is a public instrumentality of the State of Maine. MCA was established to achieve the State of Maine's Connectivity Goals established in Title 35-A of the Maine Revised Statutes Annotated Chapter 94-A (P.L. 2001, Chapter 363).

State of Maine Connectivity Goals:

1. High-speed connectivity be universally available in the State, including to all residents, businesses and community anchor institutions;
2. There be secure, affordable, reliable, competitive and sustainable forward-looking advanced communications technology infrastructure that can meet current and future needs;
3. All residents, businesses and institutions in the State be able to take full advantage of the economic, health, educational and other opportunities available through connectivity services; and
4. Existing public and private infrastructure be used effectively and efficiently in the public interest to provide advanced communications technology infrastructure in all areas of the State.

MCA is considered a component unit of the State of Maine, and as such, its financial statements are reflected in the State of Maine general-purpose financial statements. MCA is a quasi-governmental agency and not a department of the State of Maine.

Overview of 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.

Management's Discussion and Analysis is intended to serve as an introduction to MCA's basic financial statements. The basic financial statements include the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and related notes to the financial statements. The Statement of Net Position presents information on all of MCA's assets, liabilities and net position. The Statement of Revenues, Expenses and Changes in Net Position presents information on MCA's revenues and expenses. The Statement of Cash Flows supplements those statements providing relevant information about cash sources and uses. MCA's financial statements are presented on an accrual basis. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

MAINE CONNECTIVITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2022

Financial Highlights & Financial Analysis

A comparative analysis to the prior year for the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position is not presented as MCA commenced operations in FY 2022.

MCA's revenues and expenses in the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2022 were \$499,426 and \$499,426, respectively.

The Authority's net position as of June 30, 2022 was \$0 as all administrative expenses incurred were funded by federal awards. Due to accounting treatment for federal awards, recognition of revenue occurs when related eligibility is met, in this case, incurring administrative expenses.

MCA had no direct programmatic activity or expenditures in FY22. All incurred expenses were operational in nature and charged to the administrative portion of MCA's funding sources.

Governance

MCA is governed by an eleven-person Board of Directors, appointed by the Governor of the State of Maine.

1. Three members who possess expertise in advanced communications technology infrastructure or communications service, including, but not limited to, expertise in network design, network operations and middle mile infrastructure;
2. One member representing communities in the State;
3. One member who possesses expertise in banking or financial lending, including, but not limited to, expertise in the provision of loans or other capital investments for infrastructure deployment in the State;
4. One member who possesses expertise in education system needs;
5. One member who possesses expertise in telehealth delivery and telehealth system needs;
6. The Commissioner of Economic and Community Development or the commissioner's designee;
7. The Chancellor of the University of Maine System or the chancellor's designee;
8. The Chief Executive Officer of the Finance Authority of Maine or the officer's designee; and
9. The Chief Information Officer within the Department of Administrative and Financial Services or the officer's designee.

Systems, controls, and legal compliance

In addition to full-time staff, MCA has engaged a series of consultants to supply general business support services, including Accounting, HR & HR Compliance, IT, Legal and Finance. MCA has also engaged a series of technical consultants for broadband specific services.

Funding sources – FY22 and future

MCA is the awardee on a series of federal funding programs. MCA's FY23 budget showed an estimated \$57 million of program related revenues/expenses and \$4 million of admin revenue, increasing to \$111 million and \$5 million, respectively, in FY24.

Subsequent Events

At the time of the audit being issued, the MCA team has grown to 10 FTEs, with 2 FTEs scheduled to start in October 2022, plus 2 positions open and actively being recruited.

MAINE CONNECTIVITY AUTHORITY

STATEMENT OF NET POSITION

June 30, 2022

ASSETS

Current assets:

Cash and cash equivalents	\$5,691,328
Other assets	<u>163</u>

Total current assets	<u>5,691,491</u>
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Total assets	<u>\$5,691,491</u>
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LIABILITIES

Current liabilities:

Accounts payable	\$ 97,235
Accrued expenses and other liabilities	83,900
Unearned federal award revenue	<u>5,510,356</u>

Total current liabilities	<u>5,691,491</u>
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Total liabilities	<u>5,691,491</u>
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NET POSITION

Net position	<u>\$ —</u>
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See accompanying notes.

MAINE CONNECTIVITY AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2022

Operating revenues:	
Federal award revenue	\$489,644
Interest income	<u>9,782</u>
Total operating revenues	499,426
Operating expenses:	
Salaries and benefits expense	196,718
Professional services expense	244,793
Other administrative expenses	<u>57,915</u>
Total operating expenses	<u>499,426</u>
Operating income	—
Net position, beginning of year	<u>—</u>
Net position, end of year	\$ <u><u>—</u></u>

See accompanying notes.

MAINE CONNECTIVITY AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2022

Operating activities:	
Cash received from federal award activity	\$6,000,000
Cash paid for operating expenses	(318,291)
Cash paid for other assets	(163)
Cash received from interest income	<u>9,782</u>
Net cash provided by operating activities	<u>5,691,328</u>
Increase in cash and cash equivalents	5,691,328
Cash and cash equivalents at beginning of year	<u>—</u>
Cash and cash equivalents at end of year	<u>\$5,691,328</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ —
Changes in operating assets and liabilities:	
Unearned federal award revenue	5,510,356
Other assets	(163)
Accounts payable	97,235
Accrued expenses and other liabilities	<u>83,900</u>
Net cash provided by operating activities	<u>\$5,691,328</u>

See accompanying notes.

MAINE CONNECTIVITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

1. **Organization and Significant Accounting Policies**

The accounting policies of the Maine Connectivity Authority (the Authority) conform to accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the accounting principles are described below.

Authorizing Legislation

The Maine Connectivity Authority was established on June 24, 2021 by the State of Maine legislature through the enactment of L.D. 1484 “An Act to Establish the Maine Connectivity Authority.” The Authority is an instrumentality and component unit of the State of Maine (the State), organized and existing under and pursuant to M.R.S.A Title 35-A, Section 9404. Bylaws were approved by the Authority Board of Directors on November 12, 2021, at which time operations commenced.

The Authority was created for the purpose of achieving the universal access of affordable high-speed broadband in Maine. The Authority’s principal objectives are to ensure that effective, accessible connectivity be universally available in the State; that there be secure, affordable, reliable, competitive, sustainable and forward-looking infrastructure that can meet future needs; and that all residents, businesses and institutions in Maine be able to take full advantage of the economic, health, educational and other opportunities available through connectivity services.

All of the Authority’s revenues to-date have been derived from federal awards under the Federal *American Rescue Plan Act of 2021* (ARPA), Coronavirus State and Local Fiscal Recovery Funds (SLFRF) and Capital Projects Fund (CPF) programs. Refer to note 3 for additional information related to Federal awards.

Basis of Accounting

The accounts of the Authority are maintained in accordance with the principles of “fund accounting.” These principles require that resources for various purposes be classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. The Authority only has one fund, which is a proprietary fund. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and collectibility is assumed and expenses are recorded at the time liabilities are incurred.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MAINE CONNECTIVITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

1. Organization and Significant Accounting Policies (Continued)

Cash Equivalents

For purposes of preparing the statements of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At June 30, 2022, the Authority's cash equivalents consisted of amounts held in the State of Maine Treasurer's Cash Pool and Insured Cash Sweep (ICS) demand deposits.

Operating Revenues and Expenses

Operating revenues include federal award revenue and interest and dividend income. Operating expenses include professional fees and services, payroll and administrative expenses and other costs of providing services and operating the program.

Federal Award Revenue

The ARPA awards contain conditions that are required to be met, including the incurrence of eligible expenditures. The Authority accounts for ARPA awards under GASB 33, *Accounting and Financial Reporting for Non-Exchange Transactions*. Under this guidance, the Authority recognizes amounts received under ARPA awards as unearned federal award revenue on the statement of net position, until the related eligibility requirements are met, at which time federal award revenue is recognized on the statement of revenues, expenses and changes in net position.

Federal Income Taxes

It is the opinion of management that the Authority is exempt from federal income taxes under Internal Revenue Code (IRC) Section 115, and that the Authority has maintained its tax-exempt status and has no uncertain tax positions that require adjustment or disclosure in these financial statements.

Recently Issued Accounting Pronouncements

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement: (a) defines a SBITA, (b) establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, (c) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA, and (d) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The effective date for GASB 96 is to reporting periods beginning after June 15, 2022, with earlier application permitted. The Authority is currently evaluating the impact of the pending adoption of this statement on its financial statements.

MAINE CONNECTIVITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

2. Cash Equivalents

The Authority does not have a formal deposit or investment policy. However, monies that are not needed for immediate use are invested with the State of Maine. The Treasurer of the State of Maine sponsors an investment pool (State of Maine Treasurer's Cash Pool). The Authority's participation is voluntary. The State of Maine's investment pool is primarily comprised of investment vehicles with short maturities and management of the Authority characterizes the investments within the pool as low risk. The State of Maine Treasurer's Cash Pool is not rated by external rating agencies. The Authority is able to make withdrawals from the State of Maine investment pool at par with little advance notice and without penalty. The Authority's management considers this investment vehicle a money market instrument and generally carries the amounts in the pool at fair value, which approximates cost. Cash equivalents consisted of the following at June 30, 2022:

Bank ICS demand deposits	\$1,684,574
State of Maine Treasurer's Cash Pool	<u>4,006,754</u>
	<u>\$5,691,328</u>

The ICS demand deposits are cash sweep accounts that are fully insured by the Federal Deposit Insurance Corporation (FDIC).

3. Federal Awards

Entitlement to federal awards are generally based upon compliance with terms and conditions of the award agreements and applicable federal regulations, including the expenditures of awards for eligible purposes. Awards are subject to financial and compliance audits; any disallowance as a result of these audits becomes a liability to the Authority.

In January 2022, the Authority was approved for \$21,000,000 of ARPA SLFRF funds. Through June 30, 2022, the Authority had received \$5,000,000 of the funds, with the remaining \$16,000,000 expected to be received in fiscal 2023.

In February 2022, the Authority was approved to receive approximately \$128,000,000 under the ARPA CPF, subject to the U.S. Department of Treasury (Treasury) review and approval of a formal detailed program plan. The Authority was entitled to and received \$1,000,000 in June 2022, in advance of final Treasury approval, to cover administrative expenses incurred and to be incurred. In July 2022, the Treasury approved Phase 1 of the detailed program plan for \$110,000,000 of CPF funds. The Authority plans to submit the Phase 2 (final phase) program plan, for the remaining \$18,000,000, to the Treasury by September 30, 2022.

Included in unearned federal award revenue, is \$5,510,356 of federal awards received that will be utilized for administrative and program costs in future years.

MAINE CONNECTIVITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

3. Federal Awards (Continued)

Below is a summary of revenues recognized under each award agreement for the year ended June 30, 2022:

	<u>SLFRF</u>	<u>CPF</u>	<u>Total</u>
Federal award revenue	\$381,618	\$108,026	\$489,644

4. Related Party Transactions

Through June 30, 2022 the Authority had an informal arrangement with the Finance Authority of Maine (FAME), a body corporate and politic instrumentality of the State, to provide administrative and financial services to the Authority. Amounts paid to FAME in 2022 under this arrangement were not significant. Effective July 1, 2022, the Authority entered into a two year contract for such services, through June 30, 2024, at a rate of \$1,900 per month for services outlined in the contract. Any services provided outside of the contract will be billed by FAME to the Authority at an agreed upon rate.

5. Subsequent Events

On July 15, 2022, the Authority signed a service contract with ConnectMaine Authority (CME). CME is a body corporate and politic and a public instrumentality of the State of Maine established in 2006 by 35-A MRS Chapter 93, section 9203 (1) to future the goals of the State of Maine broadband policies. The Authority is also a body corporate and politic and a public instrumentality of the State of Maine, established in 2021 by 35-A MRS Chapter 94-A, section 9404 to carry out the powers conferred by Chapter 94-A as an essential governmental function, and to achieve the State connectivity goals set forth in section 9403. Although the two organizations remain separate legal entities, with separate Boards of Directors, the Organizations have agreed that given their similar operational objectives, functional integration represents the best course to ensure efficient and well-coordinated broadband planning and oversight services. The Organizations have an agreement whereby the Authority staff provide contractual support services to the CME Board of Directors to implement CME Programs, with Authority staff providing supervision of all CME Funds starting July 1, 2022. The goal of the CME-Authority agreement is to enable alignment of the CME and Authority programs within the framework of the two separate legal entities with their respective Boards of Directors to better serve Maine citizens.

Any federal funds already awarded to CME will remain with CME, and future federal funds received under existing awards will remain with CME. The CME BOD has authorized the Authority to administer those funds on behalf of the CME and has appointed the President of the Authority as the contract representative for the CME federal grants.

MAINE CONNECTIVITY AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2022

<u>Functions/ Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue and Changes in Net Position</u>
	<u>Charges for Services</u>	<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants/ Contributions</u>	<u>Total</u>
Maine Connectivity Authority:					
State and Local Fiscal Recovery Funds	\$(391,067)	\$ -	\$ 9,449	\$381,618	\$ -
Capital Projects Funds	<u>(108,359)</u>	<u>-</u>	<u>333</u>	<u>108,026</u>	<u>-</u>
	<u>\$(499,426)</u>	<u>\$ -</u>	<u>\$ 9,782</u>	<u>\$489,644</u>	<u>-</u>
		General revenues:			
				Unrestricted investment income	<u>-</u>
				Total general revenues	<u>-</u>
				Change in net position	<u>-</u>
				Net position, beginning of the year	<u>-</u>
				Net position, end of the year	<u>\$ -</u>