

Pennsylvania Public Utility Commission

Pennsylvania Universal Service Fund

Financial Statements

December 31, 2018 and 2017

With Independent Auditors' Report



Pennsylvania Universal Service Fund
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December 31, 2018 and 2017

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Independent Auditors' Report

To the Pennsylvania Public Utility
Commission and GVNW

We have audited the accompanying balance sheets of the Pennsylvania Universal Service Fund (PAUSF), a special revenue fund of the Commonwealth of Pennsylvania administered by GVNW as of December 31, 2018 and 2017, and the related statements of revenues and expenses, and statements of cash flows for the years then ended, and the related notes to the financial statements, comprising the PAUSF's basic financial statements. These financial statements are the responsibility of the PAUSF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 an opinion 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 opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PAUSF, administered by GVNW, as of December 31, 2018 and 2017, and the cash flows for the fiscal years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2E, the financial statements present only the PAUSF and do not purport to and do not present fairly the financial position of the Commonwealth of Pennsylvania as of December 31, 2018 and 2017, and the changes in its financial position for the years then ended, in conformity 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 budgetary comparison on page 6 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 29, 2019 on our consideration of the PAUSF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 PAUSF's internal control over financial reporting and compliance.

Hurlbert CPA LLC

HURLBERT CPA LLC
Liberty, MO
May 29, 2019

**PENNSYLVANIA UNIVERSAL SERVICE FUND
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2018, AND 2017**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Pennsylvania Universal Service Fund's (PAUSF) annual financial report represents our discussion and analysis of the PAUSF's financial performance during the fiscal years that ended on December 31, 2018 and 2017. It should be read in conjunction with the PAUSF's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: management's discussion and analysis and the basic financial statements. The basic financial statements also include notes that explain some of the information in the financial statements and provide data that are more detailed.

COMPARATIVE CONDENSED FINANCIAL INFORMATION

At December 31 (Dollars in thousands)	2018	2017
Cash and Cash Equivalents	\$ 3,086	\$ 2,385
Account Receivable	\$ -	\$ 54
Total Assets	\$ 3,086	\$ 2,439
Payable to Contributors	\$ -	\$ -
Prepaid Assessments	\$ 275	\$ -
Accounts Payable and Accrued Expenses	\$ -	\$ -
Total Liabilities	\$ -	\$ -
Fund Net Assets	\$ 2,811	\$ 2,439
Total Liabilities & Fund Net Assets	\$ 3,086	\$ 2,439
Assessments	\$ 34,292	\$ 34,060
Total Revenues	\$ 34,292	\$ 34,060
Amounts Paid and Due to Service Providers	\$ 33,827	\$ 33,826
Bad debt expense (recovery)	\$ 20	\$ -
Administrative Costs	\$ 125	\$ 159
Total Operating Expenses	\$ 33,972	\$ 33,985
Non-Operating Revenue	\$ 51	\$ 25
Change in Fund Net Assets	\$ 371	\$ 100

PAUSF
2018 Comparison Budget
(Dollars in Thousands)

	Budget	Actual	Variance
Assessments	\$34,324	\$34,292	\$(32)
Total Revenues	\$34,324	\$34,292	\$(32)
Amounts Paid and Due to Service Providers	\$33,827	\$33,827	\$0
Bad Debt Expense (Recovery)	\$1,628	\$20	\$(1,608)
Administrative Costs	\$118	\$125	\$7
Total Operating Expenses	\$35,573	\$33,972	\$(1,601)
Non-Operating Revenue	-	\$51	\$51
Change in Fund Net Assets	\$(1,249)	\$371	\$1,620

FINANCIAL HIGHLIGHTS

The PAUSF fund net assets December 31, 2018 and 2017 were approximately \$2.8 million and \$2.4 million, respectively. For fiscal year 2018, PAUSF unrestricted fund net assets increased due to an increase in the assessment rate.

The PAUSF total assessments for the fiscal years 2018 and 2017 were approximately \$34.292 million and \$34.060 million, respectively. The PAUSF total amounts paid and due to service providers for fiscal years 2018 and 2017 were approximately \$33.827 million and \$33.826 million, respectively.

The PAUSF total administrative costs for fiscal years 2018 and 2017 were approximately \$125 thousand and \$159 thousand, respectively. The PAUSF interest income for fiscal years 2018 and 2017 was approximately \$51 thousand and \$25 thousand, respectively.

PENNSYLVANIA UNIVERSAL SERVICE FUND
BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(IN THOUSANDS)

ASSETS	2018	2017
Current Assets		
Cash and Cash Equivalents	\$ 3,086	\$ 2,385
Accounts Receivable	\$ -	\$ 54
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	<u>\$ 3,086</u>	<u>\$ 2,439</u>
 LIABILITIES AND FUND NET ASSETS		
Current Liabilities		
Payable to Contributors	\$ -	\$ -
Prepaid Assessments	\$ 275	\$ -
Accounts Payable and accrued expenses	\$ -	\$ -
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	<u>\$ 275</u>	<u>\$ -</u>
 Fund Net Assets - Unrestricted	 <u>\$ 2,811</u>	 <u>\$ 2,439</u>
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND NET ASSETS	<u>\$ 3,086</u>	<u>\$ 2,439</u>

The Notes to Financial Statements are an integral part of these statements.

PENNSYLVANIA UNIVERSAL SERVICE FUND
STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
Operating Revenue:		
Assessments	\$ 34,292	\$ 34,060
Operating Expenses:		
Amounts Paid and Due to Service Providers	\$ 33,827	\$ 33,826
Bad debt expense (recovery)	\$ 20	\$ -
Administrative Costs	\$ 125	\$ 159
Total Operating Expenses	\$ 33,972	\$ 33,985
Operating Income	\$ 320	\$ 75
Non-Operating Income		
Interest Income	\$ 51	\$ 25
Net Increase in Unrestricted Fund Net Assets	\$ 371	\$ 100
Fund Net Assets, Beginning of Period	\$ 2,439	\$ 2,339
Fund Net Assets, End of Period	\$ 2,811	\$ 2,439

The Notes to Financial Statements are an integral part of these statements.

PENNSYLVANIA UNIVERSAL SERVICE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
Cash Flows from Operating Activities:		
Receipts from Assessments and service providers	\$ 30,681	\$ 34,044
Cash paid to service providers	\$ (29,906)	\$ (33,826)
Cash paid for administrative costs	<u>\$ (125)</u>	<u>\$ (159)</u>
Net Cash Provided by Operating Activities	\$ 650	\$ 59
Cash Flows from Investing Activities:		
Interest Income	<u>51</u>	<u>25</u>
Net Cash Provided by Investing Activities	51	25
 Increase in Cash and Cash Equivalents	 <u>701</u>	 <u>84</u>
 Cash and Cash Equivalents, Beginning of Period	 <u>2,385</u>	 <u>2,301</u>
Cash and Cash Equivalents, End of Period	<u>\$ 3,086</u>	<u>\$ 2,385</u>
 Reconciliation of Net Cash Provided by Operating Activities:		
Operating Income	\$ 320	\$ 75
Decrease (Increase) in Accounts Receivable	54	12
Increase (Decrease) in Prepaid Assessments	275-	<u>(28)</u>
Net Cash Provided by Operating Activities	<u>\$ 649</u>	<u>\$ 59</u>

The Notes to Financial Statements are an integral part of these statements.

PENNSYLVANIA UNIVERSAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
(In Thousands)

Note 1-General:

On September 30, 1999 the Pennsylvania Public Utility Commission (PPUC) issued an Order at Docket Nos. P-00991648 and P-00991649 (Global Order), as amended by the Order entered November 5, 1999, and as amended by the Proposed Order in Rulemaking Re: Establishing Universal Service Fund Regulations at 52 Pa. Code §§63.141-63.151, Docket No. L-00000148, (1/27/00), to create the Pennsylvania Universal Service Fund (PAUSF). In addition, the Pennsylvania Public Utility Commission (Commission) on March 22, 2001, adopted a revised final rulemaking order establishing a universal service funding mechanism, implementing revenue- neutral rate reform and resolving interconnection issues in the telecommunications industry. The PAUSF was established to both reduce and restructure access charges and further the opportunity for development of local competition. The PAUSF is a means to reduce access and toll rates for the ultimate benefit of the end-user and to encourage greater toll competition, while enabling carriers to continue to preserve the affordability of local service rates.

The PAUSF is funded by an assessment on Pennsylvania telecommunications service providers that provide intrastate telecommunications services (excluding wireless carriers) and is paid, via a monthly remittance advice, to GVNW Consulting, Inc.. GVNW is the administrator of the PAUSF.

GVNW has a contract to administer the PAUSF by PA PUC on March 23, 2017 through June 30, 2022.

Carriers contribute a fixed monthly assessment amount based on company specific revenues. Eligible recipients receive fixed monthly support payments from the PAUSF as approved by the PPUC.

PENNSYLVANIA UNIVERSAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
(In Thousands)

Note 2 - Summary of Significant Accounting Policies:

A. Basis of Presentation

These statements have been prepared on the accrual basis in accordance with the Governmental Accounting Standards Board (GASB). For the years ended December 31, 2018 and 2017 the PAUSF had accounting transactions in the unrestricted fund net assets only. The PAUSF's financial statement presentation follows the recommendation of GASB No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and amendments. GASB No. 34, as amended, establishes standards for financial reporting for state and local governments.

B. Use of Estimates

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

C. Revenue Recognition

Telecommunications companies doing business in the Commonwealth of Pennsylvania are required to pay into the PAUSF a fixed monthly amount as determined in accordance with PUC regulations. It is the PAUSF's policy to record revenues in the period earned. Received advances or prepayments are not recognized as revenues, but as deferred revenues.

D. Receivables and Credit Policies

Accounts receivable – assessments are due under normal terms requiring payment by the 15th of the month. Any accounts not paid by the 15th of the month plus a thirty day grace period are assessed a late payment charge of 18 percent per annum, adjusted to a daily percent. Late payment charges are recorded as assessments.

E. Special Revenue Fund

The PAUSF is considered a special revenue fund of the Commonwealth of Pennsylvania. The financial statements presented are not a reflection of the financial position or changes in financial position of the Commonwealth of Pennsylvania.

PENNSYLVANIA UNIVERSAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
(In Thousands)

Note 3 - Cash and Cash Equivalents:

As part of its cash management program, GVNW maintains a Government interest checking account for the PAUSF at a Pennsylvania bank. Interest is credited to the PAUSF when earned. The annual percentage yield earned for the twelve months ended December 31, 2018 from this account averaged 1.76% and is currently earning 1.54%. The interest rate for the years ended December 31, 2018 and 2017 averaged 1.76% and 0.55%, respectively. Interest earned for the years ended December 31, 2018 and 2017 was \$51 and \$25, respectively.

Note 4 - Allowance for Doubtful Accounts:

Allowance for doubtful accounts amounted to \$0 and \$0 for the years ended December 31, 2018 and 2017 to provide for anticipated uncollectible amounts from certain carriers. Uncollectible contributions of \$20 and \$0 were written off during the periods ended December 31, 2018 and 2017, respectively.

Note 5 - Assessments:

Identified carriers that are operating in the Commonwealth of Pennsylvania, excluding wireless service providers, provide assessments to the Fund. In addition, the PPUC notifies GVNW when new carriers are certified to offer service in the Commonwealth of Pennsylvania. The carriers are assessed at a flat rate based on the intrastate revenue of two years prior. The assessment rate for the year ended December 31, 2018 and 2017 was 1.96 and 1.83 percent, respectively. The gross assessments totaled \$34,292 and \$34,060 for the years ended December 31, 2018 and 2017, respectively, which included late fees of \$7 and \$6, respectively.

Payments received from carriers prior to the payment's contribution due date are recorded as Prepaid Assessments. Prepaid Assessments for the years ended December 31, 2018 and December 31, 2017 were \$275 and \$0, respectively.

Note 6 - Amounts Paid and Due to Service Providers:

Universal Service Support Payments to the qualified recipients are made by GVNW as directed by the PPUC. The qualified recipients receive payments in order to neutralize the revenue deficits created by mandated decreases in toll and access charges. For the periods ended December 31, 2018 and December 31, 2017, the PAUSF determined that approximately \$33,827 and \$33,826, respectively, in support payments were due to service providers.

PENNSYLVANIA UNIVERSAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
(In Thousands)

Note 7 - Administrative Costs:

As stated in the Contract, GVNW is reimbursed a fixed amount each fiscal year plus any allowable variable costs. Payments to an independent accountant for an annual audit are paid out of the fund.

The administrative fees for the years ended December 31, 2018 and 2017 were \$125 and \$159, respectively. Solix was under contract as the administrator of the PAUSF through June 30, 2017.

The administrative costs were approximately as follows:

	<u>2018</u>	<u>2017</u>
Administrative Fees	\$ 97	\$ 129
External Audit Fees	22	28
Banking Fees	6	2
	\$ 125	\$ 159

Note 8 - Income Taxes:

These financial statements present the activities of the PAUSF. The activities of the PAUSF are tax-exempt since the PAUSF is a special revenue fund of the Commonwealth of Pennsylvania, and therefore not subject to federal or state income taxes or sales, use, gross receipts or other taxes. As such, no provision for such taxes has been reflected in the accompanying financial statements.

Note 9 - Concentration of Credit Risk:

The Fund maintains a Government Interest Checking Account, collateralized in accordance with the pooling of assets option provided by PA-Act 72, Senate Bill 383 of 1971. FDIC will insure account balances up to \$250,000. Account balances in excess of \$250,000 will be protected by pledged government securities that will be equal to 102% of the total amount on deposit. Specific asset pledges will be provided in required instances along with a pool of investments that will serve as collateral. All securities are held by an independent third party custodian bank, either the Bank of New York Mellon or US Bank.

Note 10 - Subsequent Events:

Management has evaluated subsequent events occurring after the balance sheet date through the date of May 29, 2019, which is the date the financial statements were available to be issued. Based on this evaluation, Management has determined that no subsequent events have occurred which require disclosure in the financial statements.

**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***

Independent Auditors' Report

To the Pennsylvania Public Utility Commission
and GVNW

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 special revenue fund of the Pennsylvania Universal Service Fund, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Pennsylvania Universal Service Fund's basic financial statements, and have issued our report thereon dated May 29, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pennsylvania Universal Service Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pennsylvania Universal Service Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pennsylvania Universal Service Fund's internal control.

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

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pennsylvania Universal Service Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and GVNW procedures, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

Hurlbert CPA LLC

Hurlbert CPA, LLC
Liberty, MO

May 29, 2019