

Vermont Universal Service Fund

Financial Statements With Independent Auditor's Report

YEAR ENDED JUNE 30, 2016



INDEPENDENT AUDITORS' REPORT

To the Vermont Department of Public Service and the Administrator of the Vermont Universal Service Fund:

Report on the Financial Statements

We have audited the accompanying balance sheet of the Vermont Universal Service Fund (VUSF), a special revenue fund of the State of Vermont, as of June 30, 2016 and the related statement of revenues, expenses and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VUSF as of June 30, 2016 and the respective change in financial position and, where applicable, cash flows thereof for the years 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 on page 3 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 October 13, 2016 on our consideration of VUSF's internal control over financial reporting and 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 the 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 VUSF's internal control over financial reporting and compliance.

Hurlbert CPA LLC

Hurlbert CPA, LLC
Liberty, MO 64068
October 13, 2016

**VERMONT UNIVERSAL SERVICE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Vermont Universal Service Fund's (VUSF) annual financial report represents our discussion and analysis of the VUSF's financial performance during the fiscal year ended on June 30, 2016. It should be read in conjunction with the VUSF'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 key information contained in the financial statements and provide further details on select data.

CONDENSED FINANCIAL INFORMATION

	2016 (In Thousands)
Cash and cash equivalents	\$ 2,783
Receivable from contributors	632
Total Assets	<u>\$ 3,415</u>
Payable to service agencies	\$ 66
Payable to contributors - lifeline assistance	45
Payable to contributors - lifeline admin	7
Payable to contributors	11
Accounts payable and accrued expenses	25
Total Liabilities	<u>154</u>
Fund Balance - Unrestricted	461
Fund Balance - Restricted, Connectivity Fund	2,800
Total Liabilities and Fund Balance	<u>\$ 3,415</u>
Assessments	\$ 6,543
Wholesale performance plan	10
Late payment charges	3
Total Revenue	<u>6,556</u>
Amounts paid and due to service agencies	5,372
Lifeline administration	40
Lifeline credits	551
Connectivity initiative	270
Administrative costs	132
Total Operating Expenses	<u>6,365</u>
Change in Fund Balance	<u>\$ 191</u>

FINANCIAL HIGHLIGHTS

The VUSF unrestricted fund balance as of June 30, 2016 was approximately \$461 thousand. The VUSF restricted fund balance for Connectivity Fund as of June 30, 2016 was approximately \$2.800 million. The VUSF total assessments for fiscal year 2016 were approximately \$6.543 million. The VUSF total wholesale performance plan for fiscal year 2016 was approximately \$10 thousand. The VUSF total late payment charges for fiscal year 2016 were approximately \$3 thousand. The VUSF total amounts paid and due to service agencies for fiscal year 2016 were approximately \$5.372 million. The VUSF total lifeline administration for fiscal year 2016 was approximately \$40 thousand. The VUSF total lifeline credit for fiscal year 2016 was approximately \$551. The VUSF total connectivity initiative for fiscal year 2016 was approximately \$270 thousand. The VUSF total administrative costs for fiscal year 2016 were approximately \$132 thousand.

As of June 30, 2016, the VUSF had a net receivable balance of approximately \$478 thousand consisting primarily of receivable from contributors of \$632 thousand, payable to service agencies of \$66 thousand, payable to contributors – lifeline assistance of \$45 thousand, payable to contributors – lifeline administrative expenses of \$7 thousand, payable to contributors of \$11 thousand, and accounts payable and accrued expenses of \$25 thousand. The VUSF maintained an adequate cash flow and balance of funds to satisfy all obligations during 2016.

Comparative analysis of the VUSF fund will be provided in future years.

2016 BUDGET AND ACTUAL COMPARISON

	(In Thousand)		
	Budget	Actual	Variance
Revenues	\$ 6,419	\$ 6,559	\$ 140
Expenses			
Lifeline	723	551	(172)
Lifeline admin	46	40	(6)
E 911	4,605	5,130	525
TRS	237	198	(39)
Equipment disbursement	75	44	(31)
Connectivity initiative	270	270	-
Program administration	70	75	5
Bank fees	12	20	8
Audit fees	20	37	17
Total expenses	6,058	6,365	307
Revenues over (under) expenses	\$ 361	\$ 194	\$ (167)
Fund balance, beginning of year		3,067	
Fund balance, end of year		\$ 3,261	

Expenses were above budget mainly because of a special disbursement to E911 due to Bill H. 875.

**VERMONT UNIVERSAL SERVICE FUND
BALANCE SHEET
June 30, 2016
(in thousands)**

ASSETS	<u>2016</u>
Current Assets:	
Cash and cash equivalents	\$ 2,783
Receivable from contributors	632
TOTAL ASSETS	<u><u>\$ 3,415</u></u>
LIABILITIES AND FUND BALANCE	
Current Liabilities:	
Payable to service agencies	\$ 66
Payable to contributors - lifeline assistance	45
Payable to contributors - lifeline administrative expenses	7
Payable to contributors	11
Accounts payable and accrued expenses	25
Total Liabilities	<u><u>154</u></u>
Fund Balance - Unrestricted	461
Fund Balance - Restricted, Connectivity Fund	<u>2,800</u>
Total Fund Balance	<u><u>3,261</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 3,415</u></u>

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

**VERMONT UNIVERSAL SERVICE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016
(in thousands)**

	2016
Operating revenues:	
Assessments	\$ 6,543
Wholesale performance plan	10
Late payment charges	3
Total operating revenues	6,556
 Operating expenses:	
Program expenses	
Amounts paid and due to service agencies	5,372
Lifeline administration	40
Lifeline credits	551
Connectivity initiative	270
Total program expenses	6,233
Administrative costs	132
Total operating expenses	6,365
Operating income	191
 Non-operating revenue:	
Interest income	3
	3
Change in fund balance	194
Fund balance - Unrestricted, beginning of year	3,067
Fund balance - Unrestricted, end of year	461
Fund balance - Restricted, Connectivity Fund, end of year	2,800
	\$ 3,261

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

**VERMONT UNIVERSAL SERVICE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(in thousands)**

	2016
Cash flows from operating activities:	
Receipts from contributors	\$ 5,918
Payments for telecommunication programs	(5,226)
Payments for lifeline administration	(32)
Payments for lifeline credit	(507)
Payments for connectivity initiative	(270)
Cash paid for administrative costs	(97)
Cash receipts from prior administrator	682
Net cash provided by operating activities	468
Cash flows from investing activities:	
Interest income	3
Net cash provided by investing activities	3
Net increase in cash and cash equivalents	471
Cash and cash equivalents	
Beginning of the year	2,312
End of the year	\$ 2,783
Reconciliation of net cash provided by operating activities:	
Change in Fund Balance	\$ 191
Changes in assets and liabilities	
(Increase) in receivable from contributors	(66)
Decrease in accounts receivable	271
Increase in payable to service agencies	42
Increase in payable to contributors - lifeline assistance	1
Increase in payable to contributors - lifeline administrative expenses	4
Increase in accounts payable and accrued expenses	25
Net cash provided by operating activities	\$ 468

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

VERMONT UNIVERSAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(in thousands)

Note 1 – General

In 1994, the Vermont General Assembly passed a law (“Act 197”) establishing the Vermont Universal Service Fund (VUSF), a special reserve fund of the state of Vermont. The VUSF supports the Vermont Enhanced 911 (“E911”), Telecommunications Relay Service (“TRS”), Telecommunications Equipment Distribution and Lifeline Assistance programs, is supported by a Universal Service Fund assessment (“USF Assessment”) on all retail telecommunications services provided to a Vermont address. The USF Assessment is collected from telecommunications service agencies and paid, via a monthly remittance advice, to Solix, Inc., which was selected by the Vermont Public Service Department (VPSD) to act as the Fiscal Agent of the VUSF. In accordance with the terms of the contract signed in July 2015, Solix, Inc. will act as Fiscal Agent for the period of July 1, 2015 through June 30, 2018.

The VUSF assessment rate is set by statute and can only be changed by an act of the General Assembly. The assessment rate is 2.00 percent of total retail telecommunications revenue for the period July 1, 2015 to June 30, 2016.

Note 2 – Summary of Significant Accounting Policies

A. Basis of Presentation

These statements have been prepared on the accrual basis in accordance with standards promulgated by the Governmental Accounting Standards Board (“GASB”), for the periods presented. Act 197 permits carriers to file their monthly remittances disclosing revenues on either a cash or accrual basis. The financial statement caption of “receivable from contributors” on the balance sheet, as well as the “assessments” on the statement of revenues, expenses and changes in fund balance is understated by the difference of what is reported by the carriers reporting on a cash basis versus what would be reported by the carriers if they utilized the accrual basis. The VUSF’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. Cash & Cash Equivalents

All highly liquid securities, purchased with maturity of three months or less, are considered cash equivalents. Interest is credited to the VUSF when earned and the average investment rate was 0.3103 percent for the year ended June 30, 2016.

C. 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 and disclosures 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.

D. Revenue Recognition

Operating revenues consist of all assessment related revenues. All Vermont telecommunications service agencies are permitted to assess their customers based on usage at a statutory rate that is applied to interstate retail revenues. The assessments are then remitted to the VUSF. It is the VUSF's policy to recognize assessments, relating to the current fiscal year, received within two months after fiscal year end. Late remittances are recognized in the subsequent period.

E. Income Taxes

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

F. Special Revenue Fund

The VUSF is considered a special revenue fund of the state of Vermont. The financial statements presented are not a reflection of the financial position or changes in financial position of the state of Vermont.

Note 3 – Short Term Investments

Short term investments consist of the following at June 30, 2016:

Certificate of deposit through the Certificate of Deposit Account Registry Service (CDARS):

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>2016</u>
CDARS	0.310%	06/30/2016	07/28/2016	\$ 1,930

The Fund invested in CDARS through the Bank of New York Mellon. CDARS breaks down investments into smaller amounts and invests in CD's through a number of other banks so that the entire amount is eligible for FDIC Insurance.

Note 4 – Assessments

Assessments reflect the gross assessments for the year ended June 30, 2016 which were \$6,543. Assessments to the Fund represent identified carriers that are operating in the state of Vermont. The Administrator searches publicly available resources to identify carrier operating in the state of Vermont that are not contributing to the Fund. In addition, the VPSD should notify the Fiscal Agent when new carriers are certified to offer service in the state of Vermont. Once the carriers are identified, they are billed retroactively for all active periods of the VUSF in which they were operating in the state. The cumulative billings for prior periods, reporting of delinquent contributors and true-ups are out-of-period adjustments, and are included in contributions in the period in which they are billed or determined.

Note 5 – Amounts Paid and Due to Service Agencies

Distributions to the State Treasurer of Vermont were made by the Administrator, as Fiscal Agent, for the year ended June 30, 2016, as directed by the Vermont Public Service Department and Rule Vermont Title 30 Chapter 88 §7503. These directives require all TRS, Equipment Distribution, Outreach Services and E911 disbursements to be paid to the State Treasurer in amounts determined by the Vermont Department of Public Service. According to Act 197, Lifeline Assistance support payments are deducted from remittances by participating exchange carriers. Therefore, Lifeline Assistance amounts are considered paid when reported. During fiscal year 2016, the total disbursements were \$6,233.

The support disbursements were as follows:

	<u>2016</u>
Enhanced 911	\$5,130
TRS	198
Equipment distribution	44
Total	<u>5,372</u>
Lifeline administration	40
Lifeline credits	551
Connectivity initiative	270
	<u>\$6,233</u>

Note 6 – Administrative Costs

As stated in the contract between the VPSD and the Administrator, the Administrator is reimbursed under a fixed amount each fiscal year plus any allowable variable costs, as defined. Payments to an independent accountant for an annual audit are paid out of the fund. Solix, Inc. was appointed administrator of the VUSF effective July 1, 2015.

The administrative costs for the year ended June 30, 2016 were as follows:

	<u>2016</u>
Administrative fees	\$ 75
Bank fees	20
Audit fees	37
Total administrative costs	<u>\$ 132</u>

Note 7 – Concentration of Credit and Business Risk

The Fund periodically maintains cash balances at various financial institutions, and may at times exceed amounts insured by the Federal Deposit Insurance Corporation (“FDIC”). Since these are high quality financial institutions, management does not believe the Fund is exposed to any significant credit risk on its cash and cash equivalent balances.

Note 8 – Wholesale Performance Plan Stipulation and Settlement Agreement “WPP”

The Wholesale Performance Plan was established by Order No. 7506 on Mar 25, 2015 (“WPP Agreement”). WPP is a self-executing remedy plan intended to ensure that FairPoint will provide services, access and interconnection to CLECs consistent with applicable legal requirements. It measures FairPoint’s wholesale performance. FairPoint Communications has paid \$10 in 2016 for Mode of Entry (MOE) penalties under the WPP.

Note 9 – Connectivity Fund

Connectivity Initiative Fund designated appropriation from the VUSF pursuant to 30 V.S.A. §7516 were \$1,140 for fiscal year 2016 and \$1,927 for fiscal year 2015. In fiscal year 2016, the fund was required to disburse \$270 from the Connectivity Initiative Fund for personnel and administration costs per Act 41. In fiscal year 2015, Connectivity Initiative grants awarded \$886 per 30 V.S.A §7515b, which has not been disbursed as of June 30, 2016.

The Connectivity Fund balances for the year ended June 30, 2016 were as follows:

	2016	Connectivity Initiative	High Cost
FY15 Appropriation	\$ 1,927	\$ 964	\$ 963
FY16 Appropriation	1,140	627	513
	3,067	1,591	1,476
Interest Income	3	2	1
Connectivity Initiative	(270)	(149)	(121)
Total Balance	<u>\$ 2,800</u>	<u>\$ 1,444</u>	<u>\$ 1,356</u>
Fund Balance - Uncommitted	\$ 1,914		
Fund Balance - Committed	\$ 886		

Note 10 – Subsequent Events

VUSF has evaluated subsequent events through October 13, 2016, the date which the financial statements were available to be issued.

**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 Vermont Department of Public Service and the Administrator of the Vermont Universal Service Fund:

We have audited 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, the financial statements of Vermont Universal Service Fund (VUSF) as of and for the years ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered VUSF'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 VUSF's internal control. Accordingly, we do not express an opinion on the effectiveness of VUSF's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph 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 might exist that were not 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 *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. A *material weakness* is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance whether the Vermont Universal Service Fund's financial statements are free from material misstatement, we performed tests of compliance of the Fund Administrator for the Vermont Universal Service Fund (VUSF) 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.

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 result 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 64068
October 13, 2016