

**VERMONT UNIVERSAL
SERVICE FUND
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013**



WAGGONER, FRUTIGER & DAUB, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of net position of the Vermont Universal Service Fund (VUSF), a special reserve fund of the State of Vermont, as of June 30, 2014 and 2013 and the related statements of revenues, expenses and changes in net position and cash flows for the years 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, 2014 and 2013, 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 December 1, 2014 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.

Waggon Fautiger + Daub LLP

Mechanicsburg, Pennsylvania
December 1, 2014

VERMONT UNIVERSAL SERVICE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ending June 30, 2014 and 2013

This section of the Vermont Universal Service Fund's annual financial report represents our discussion and analysis of the VTUSF's financial performance during the fiscal years that ended on June 30, 2014 and June 30, 2013. It should be read in conjunction with the VTUSF's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The VTUSF total current assets as of June 30, 2014 were \$2,464,080 and were \$2,175,982 as of June 30, 2013.
- The VTUSF total current liabilities as of June 30, 2014 were \$128,621 and \$209,101 as of June 30, 2013.
- The VTUSF unrestricted net position as of June 30, 2014 was \$2,335,459 and \$1,966,881 as of June 30, 2013.
- The VTUSF operating revenue for the year ended June 30, 2014 was \$6,325,380 and \$6,619,045 as of June 30, 2013.
- Non-operating revenue for the year ended June 30, 2014 was \$171 and \$151 as of June 30, 2013.
- The VTUSF total operating expense for the year ended June 30, 2014 was \$5,956,973 and \$7,131,346 as of June 30, 2013.
- The VTUSF program expense for the year ended June 30, 2014 was \$5,863,223 and \$6,963,346 as of June 30, 2013.
- Administrative cost for the year ended June 30, 2014 was \$93,750 and \$168,000 as of June 30, 2013.
- The VTUSF overall change in net position for the year ended June 30, 2014 was an increase of \$368,578 from \$1,966,881 at the beginning of the year to \$2,335,459 at the end of the year. Net position during 2013 decreased by \$512,150 to \$1,966,881.

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 more detailed data. The *statements of net position* presents information on the Fund's assets and liabilities, with the difference being reported as net position. The *statement of revenue, expenses and changes in net position* show how the Fund's net position changed during the two most recent fiscal years.

ANALYSIS OF FUND ACTIVITY

Total VTUSF contributions for the year ended June 30, 2014 were \$6,088,625 and were \$6,251,682 for the year ended June 30, 2013. Total VTUSF distributions to service providers for the year ended June 30, 2014 were \$5,099,642 and were \$5,322,510 for the year ended June 30,

2013. Performance Assurance Plan (“PAP”) revenues were received beginning during FY2010 in the amount of \$933,521, \$1,701,836 during FY 2011, \$459,204 during 2012, \$366,114 during 2013 and \$232,730 during 2014.

Eligible service providers also claimed \$30,226 in Lifeline administrative expenses and provided Lifeline credits to customers of \$733,355 for the year ended June 30, 2014¹. Claimed Lifeline Administrative expenses by eligible service providers were \$50,005 and Lifeline credits to customers were \$835,087 for the year ended June 30, 2013.

Cash and short term investments at the beginning of the 2014 year were \$1,580,126. Cash and cash equivalents at year end June 30, 2014 were \$1,863,317 an increase in cash, cash equivalents and short term investments of \$283,191 which is approximately 17.9%. Cash and short term investments during 2013 decreased \$496,894. Cash and cash equivalents at year end June 30, 2013 were \$1,580,126, which was a decrease in cash and cash equivalents and short term investments of 31.4%.

2014-2015 RATES AND OTHER FUND DECISIONS

Effective July 1, 2014, the VTUSF rate increased to 2% from 1.8%. On September 3, 2014, the Vermont General Assembly enacted into law Act No. 191, which requires providers of prepaid wireless telecommunications services to begin contributing to the VTUSF.

¹ See Vermont Universal Service Fund Statements of Revenues, Expenses and Changes in Net Position, Years Ended June 30, 2014 and 2013.

**VERMONT UNIVERSAL SERVICE FUND
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013**

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,863,317	1,580,126
Receivable from contributors	528,322	595,845
Accounts receivable	72,427	-
Interest receivable	14	11
	<u>14</u>	<u>11</u>
 Total assets	<u>\$ 2,464,080</u>	<u>2,175,982</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Payable to service providers	\$ 45,449	131,255
Payable to contributors - lifeline assistance	59,262	67,358
Payable to contributors - lifeline administrative expenses	2,500	3,193
Payable to contributors	21,410	7,295
	<u>21,410</u>	<u>7,295</u>
 Total liabilities	<u>128,621</u>	<u>209,101</u>

NET POSITION

Unrestricted	<u>2,335,459</u>	<u>1,966,881</u>
 Total liabilities and net position	<u>\$ 2,464,080</u>	<u>2,175,982</u>

See accompanying notes.

VERMONT UNIVERSAL SERVICE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Assessments	\$ 6,088,625	6,251,682
Performance assurance plan penalty	232,730	366,114
Late payment charges	4,025	1,168
Miscellaneous income	-	81
Total operating revenues	<u>6,325,380</u>	<u>6,619,045</u>
OPERATING EXPENSES		
Program expenses		
Amounts paid and due to service providers	5,099,642	5,322,510
Lifeline administration	30,226	50,005
Lifeline credits	733,355	835,087
S180 payments to local exchange carriers	-	755,744
Total program expenses	<u>5,863,223</u>	<u>6,963,346</u>
Administrative costs	93,750	168,000
Total operating expenses	<u>5,956,973</u>	<u>7,131,346</u>
Operating income (loss)	<u>368,407</u>	<u>(512,301)</u>
NON-OPERATING REVENUES		
Interest income	171	151
Total non-operating revenues	<u>171</u>	<u>151</u>
Increase (decrease) in net position	368,578	(512,150)
NET POSITION , BEGINNING OF YEAR	<u>1,966,881</u>	<u>2,479,031</u>
NET POSITION, END OF YEAR	<u>\$ 2,335,459</u>	<u>1,966,881</u>

See accompanying notes.

**VERMONT UNIVERSAL SERVICE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from telecommunication carriers	\$ 6,156,148	6,134,025
Performance assurance plan penalty	232,730	427,010
Late payment charges	4,025	1,168
Receipts from miscellaneous income	-	81
Payments for telecommunication programs	(5,243,760)	(5,255,767)
Payment for lifeline administration	(30,919)	(47,977)
Payment for lifeline credit	(741,451)	(831,848)
Payment for S180	-	(755,744)
Cash paid for administrative costs	(93,750)	(168,000)
Net cash provided (used) by operating activities	<u>283,023</u>	<u>(497,052)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	168	158
Net cash provided by investing activities	<u>168</u>	<u>158</u>
Net increase (decrease) in cash and cash equivalents	283,191	(496,894)
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>1,580,126</u>	<u>2,077,020</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 1,863,317</u>	<u>1,580,126</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES		
Operating income (loss)	\$ 368,407	(512,301)
CHANGES IN ASSETS AND LIABILITIES		
(Increase) decrease in receivable from contributors	67,523	(55,641)
Increase (decrease) in payable to service providers	(144,118)	66,742
Increase (decrease) in payable to contributors	(8,789)	4,148
Net cash used in operating activities	<u>\$ 283,023</u>	<u>(497,052)</u>

See accompanying notes.

**VERMONT UNIVERSAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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"), Telecommunication Relay Services ("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 by telecommunications service providers and paid, via a monthly remittance advice, to an administrator, who was selected by the Vermont Public Service Board ("VPSB") to act as fiscal agent of the VUSF.

The VUSF assessment rate was calculated by the VPSB after taking into consideration the projected funding requirements of the E911, TRS, Equipment Distribution, Lifeline Assistance programs, as well as administration expenses. The Order setting rate and Docket 7523(a) established the assessment rate of 1.60 percent of total retail telecommunications revenue for the period September 1, 2011 to August 31, 2012, an assessment rate of 1.82 percent of total retail telecommunications revenue for the period September 1, 2012 to August 31, 2013, and an assessment rate of 1.80 percent of total retail telecommunications revenue for the period September 1, 2013 to August 31, 2014.

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 statements of net position, as well as the "assessments" on the statements of revenues, expenses and changes in net position are understated by an undeterminable amount for 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. For the years ended June 30, 2014 and 2013, the VUSF had accounting transactions in unrestricted fund net position only. 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 financial reporting standards for the state and local governments and is effective for periods beginning after June 15, 2001, based on phase in dates as determined by annual revenues.

b. Cash and Cash Equivalents

All highly liquid securities, purchased with an original maturity of three months or less, are considered cash equivalents. Interest is credited to the VUSF when earned. The annualized investment rate was .01 percent for the years ended June 30, 2014 and 2013.

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 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.

**VERMONT UNIVERSAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Revenue Recognition

Operating revenues consist of all assessment related revenues. All Vermont telecommunication service providers are permitted to assess their customers based on usage at a statutory rate that is applied to interstate retail revenues. These 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 or periods and, traditionally, not significant.

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.

3. ASSESSMENTS

Assessments reflect the gross assessments for the year ended June 30, 2014 and 2013 which were \$6,088,625 and \$6,251,682 respectively. Assessments to the Fund represent identified carriers that are operating in the state of Vermont. The Administrator searches publicly available resources to identify carriers operating in the state of Vermont that are not contributing to the Fund. In addition, the VPSC notifies 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. Out-of-period revenues included in contributions for the year ended June 30, 2014 and 2013 were not significant.

4. DISBURSEMENT TO VUSF PROGRAMS

Distributions to the State Treasurer of Vermont were made by the Administrator, as Fiscal Agent, for the years ended June 30, 2014, and 2013, as directed by the Vermont Public Service Board and Docket 7169, respectively. 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. The approximate amounts incurred by the Fund are as follows:

	<u>2014</u>	<u>2013</u>
Enhanced 911 board	\$ 4,789,018	4,987,419
Telecommunications relay service	243,947	260,090
Equipment distribution	<u>66,677</u>	<u>75,001</u>
Total	5,099,642	5,322,510
Lifeline administration	30,226	50,005
Lifeline credits	733,355	835,087
S180 payments to local exchange carriers	--	<u>755,744</u>
Total program expenses	<u>\$ 5,863,223</u>	<u>6,963,346</u>

**VERMONT UNIVERSAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

5. ADMINISTRATIVE COSTS

As stated in the contract between the VPSB and the Administrator, the Administrator is reimbursed under a fixed amount each fiscal year plus any allowable variable costs, as defined. Such variable costs include any trips to Montpelier, Vermont, in excess of one time per year, and other reasonable and necessary expenses incurred by the Administrator in performance of services, including payments to an independent accountant for an annual audit, extraordinary legal work provided by external counsel and taxes, application fees, licensing fees, and similar expenses. Rolka Loube Saltzer Associates was the Administrator during the years ended June 30, 2014 and 2013. During the years ended June 30, 2014 and 2013, the administrative costs were as follows:

	<u>2014</u>	<u>2013</u>
Administrative fees	\$ 78,000	78,000
S180 impact study	--	75,000
Audit fees	<u>15,750</u>	<u>15,000</u>
Total administrative costs	<u>\$ 93,750</u>	<u>168,000</u>

6. CONCENTRATION OF CUSTODIAL CREDIT AND BUSINESS RISK

VUSF maintains its cash balances at Manufacturers and Traders Trust Company (M&T Bank). Cash balances at M&T Bank are invested in instruments issued or guaranteed as to principle and interest by the U.S. Government or any of its agencies or instrumentalities or in repurchase agreements backed by such instruments. Custodial credit risk is the risk that VUSF's deposits may not be recoverable to it in the event of a depository institution failure. VUSF does not have a formal policy regarding custodial credit risk for deposits. At June 30, 2014, VUSF had deposit balances in the amount of \$1,863,317, of which \$8,130 was insured and \$1,855,187 was uncollateralized and exposed to custodial credit risk.

Three service carriers account for approximately 55 percent and 55 percent of the VUSF's assessment revenue in 2014 and 2013, respectively. No other service carrier accounted for more than 10 percent of the VUSF's assessment revenue in 2014 and 2013. The Administrator estimates that substantially all of the VUSF accounts receivable will be collected based on the assessments issued and general economic conditions. Consequently, any adverse change in these factors could affect the Fund's estimate of bad debts.

7. PERFORMANCE ASSURANCE PLAN PENALTY

The Performance Assurance Plan (PAP) was established to measure a carrier's wholesale performance. As part of the acquisition of another carrier, the acquiring carrier agrees to comply with the PAP; the Board's Order approving the acquisition requires such compliance as a condition of approval. (Lackey pf. At 7; Docket No. 7270, Order of 2/15/08 at 54) PAP penalties are triggered because the acquiring carrier's wholesale service is either deficient relative to the standards in the PAP or discriminatory in favor of its own retail service. Fairpoint Communications has paid \$232,730 in 2014 and \$366,114 in 2013 for Mode of Entry (MOE) penalties under the PAP.

**VERMONT UNIVERSAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

8. BILL S180 ESTABLISHING ONE YEAR HIGH COST FUND

In January of 2012, a bill was introduced and passed that created a one year high cost program under which the universal service charge shall be used as a means of keeping basic telecommunications service affordable in all parts of the state, thereby maintaining universal service. Payments were to be made to Vermont's Incumbent Local Exchange Carriers (ILECs) for the purpose of reducing the cost of providing basic local telecommunications service in areas where that cost would otherwise jeopardize universal service and uniform economic development. The bill ordered that any funds in excess of \$1,000,000 remaining in the Vermont Universal Service Fund as of September 1, 2012, was to be distributed among all the ILECs in a manner determined by the commissioner of public service. On December 13, 2012, \$755,744 was distributed among all the ILECs representing the excess funds over \$1,000,000.

9. SUBSEQUENT EVENTS

VUSF has evaluated subsequent events through December 1, 2014, the date which the financial statements were available to be issued.

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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 Public Service Board 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, 2014 and 2013, and the related notes to the financial statements, and have issued our report thereon dated December 1, 2014

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. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the following deficiencies to be a material weaknesses:

2014-01 Financial statement preparation

Finding:

This finding is carried forward from the prior year. Although the Fund Administrator reviews the financial statements and disclosures and represents in writing that they are responsible for the fair presentation of the financial statements in conformity with generally accepted accounting principles (GAAP), numerous audit adjustments, both routine and non-routine in nature, were required to be

2014-01 Financial statement preparation (continued)

Finding (continued)

posted to the VUSF's accounts to properly reflect the financial position and financial activity for the year under audit. Some of the adjustments were the result of errors that once identified were reviewed and approved by the VUSF Fund Administrator, and some related to closing information provided by the VUSF Fund Administrator but the information had not been analyzed and compiled as adjustments. The fact that the adjustments were required to be compiled and posted in order for the financial statements to be properly stated constitutes a deficiency in the VUSF's internal control over financial reporting processes and routine, non-routine and non-systematic transactions, that could potentially result in a material misrepresentation of the financial activity and financial position of the VUSF.

Response:

At this time management has determined that the cost of implementing a corrective action would be in excess of the benefit achieved. In the alternative, management has regularly consulted with Certified Public Accountants regarding record keeping and continually maintained both a database developed specifically for the administration of the Fund as well as a QuickBooks accounting program and regularly reconciles both systems with the independently maintained M&T Bank records.

2014-02 Reconciliations

Finding

During our audit we noted a material adjustment for \$72,818 was necessary to reduce Enhanced 911(E911) expense to the proper budgeted amount. During the year E911 amounts being paid to the E911 program were analyzed to ensure that the amounts paid to the E911 program were in agreement to current and past budgeted amounts. The analysis did not consider a true-up payment that had been made to the fund in October 2011 for \$103,288. As a result the Administrator paid E911 an additional \$83,774 instead of the \$10,956 that was due to the program. If the Administrator had performed an additional reconciliation of the amounts reflected as paid (expense) in the general ledger for the years included in the analysis it is likely the additional payment that had not been considered would have been identified and this overpayment would not have been made.

An additional adjustment to increase accounts receivable and assessment revenue for \$92,357 was identified when reviewing deposit activity subsequent to year end. Typically when deposits are received they are entered in the Unapplied Receipts general ledger account. Once worksheets are matched with deposits, the receipt is applied to the appropriate carrier in the database and the funds are moved to the Assessment Revenue account in the general ledger. The majority of July receipts posted to the Unapplied Receipts account would have been for June 2014 activity and would have been applied to the database as June activity and then recorded as Accounts Receivable as of June 30, 2014. Despite being received in July, the \$92,357 was never applied to a carrier in the database and as a result was never picked up as a receivable at June 30, 2014. The Unapplied Receipts account is in essence a clearing account. As such it should be reviewed on a regular basis for items that have not been cleared out and posted to the appropriate account. Additionally there is an expectation for the larger carriers, and many of the smaller carriers, that there should be reports monthly (or quarterly in some situations). A review of the database on a regular basis for missing carrier report months should be done and any discrepancies investigated.

We also noted when reconciling the Lifeline credit expense recorded in the general ledger to the database that several significant monthly credit amounts were not included on the Administrator's analysis of the amount of lifeline credits from which the general ledger amount is posted. This

resulted in the general ledger expense amount being \$57,524 lower than the credits included in the database. In reviewing the analysis which includes credits by vendor, by month, we noted that two carriers for which there is an expectation to have 12 months of reports had missing months. We recommend a simple reconciliation between the database and the analysis be performed to ensure they agree. Additionally, we recommend that a visual inspection of the analysis be done to ensure all carriers for which you would expect to see monthly activity are included on the analysis.

We also noted some other accounts that did not reconcile to the detail provided. Although these were minor adjustments, we recommend that all asset and liability accounts be reconciled to the associated detail on a monthly basis to ensure recorded balances are proper.

Response:

Management is in the early stages of a project to replace the software application that has been in use for state program administration with a more user friendly application. The current application is no longer supported and is overdue for replacement and the issues identified above will be addressed during the development.

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. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described above as item 2014-02. The finding identifies several instances where lack of reconciliation procedures resulted in significant adjustments to the financial statements and in one instance, an overpayment to the Vermont Enhanced 911 Board.

Vermont Universal Service Fund's Response to Findings

VUSF's response to the findings identified in our audit are described above. VUSF'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 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.



Mechanicsburg, Pennsylvania
December 1, 2014