



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

VERMONT UNIVERSAL SERVICE FUND

June 30, 2019 and 2018

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Report of Independent Auditors

To the Vermont Public Service Department
Vermont Universal Service Fund
Montpelier, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of the Vermont Universal Service Fund (VUSF), a special revenue fund established by the Vermont Public Service Department (VPSD) and administered by Solix, Inc. (Solix), which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of revenues, expenditures, and changes in fund balance 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 audits. We conducted our audits 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, 2019 and 2018, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the VUSF and do not purport to and do not present fairly the financial position of the state of Vermont as of June 30, 2019 and 2018, 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 budget and actual comparison on pages 3 through 7 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 22, 2019 on our consideration of the VUSF'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 VUSF'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 VUSF's internal control over financial reporting and compliance.

Moss Adams LLP

Overland Park, Kansas
October 22, 2019

Vermont Universal Service Fund

Management's Discussion and Analysis

OVERVIEW

This section of the Vermont Universal Service Fund's (VUSF) annual financial report presents management's discussion and analysis of the VUSF's financial performance during the fiscal years ended on June 30, 2019, 2018 and 2017. It should be read in conjunction with the VUSF's financial statements, which follow this section.

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. The balance sheet presents information on the VUSF's assets and liabilities, with the difference being reported as fund balance. The Statement of revenues, expenditures, and changes in fund balance presents information on how the VUSF's fund balance changed during the fiscal year ended on June 30, 2019.

COMPARATIVE CONDENSED FINANCIAL INFORMATION

	2019	(In Thousands) 2018	2017
Cash and cash equivalents	\$ 883	\$ 1,068	\$ 2,579
Receivable from contributors	472	507	551
Total assets	<u>1,355</u>	<u>1,575</u>	<u>3,130</u>
Payable to service agencies	65	42	109
Payable to contributors - lifeline assistance	13	18	41
Payable to contributors - lifeline administration	2	5	1
Payable to contributors	11	11	11
Accounts payable and accrued expenses	26	24	31
	<u>117</u>	<u>100</u>	<u>193</u>
Fund balance - unrestricted	317	407	564
Fund balance - restricted, connectivity fund	921	1,068	2,373
Total liabilities and fund balance	<u>\$ 1,355</u>	<u>\$ 1,575</u>	<u>\$ 3,130</u>

Vermont Universal Service Fund Management's Discussion and Analysis

	(In Thousands)		
	2019	2018	2017
Assessments	\$ 5,327	\$ 5,811	\$ 6,237
Wholesale performance plan	2	3	5
Late payment charges	5	1	4
Connectivity tower rental	7	-	-
Total operating revenues	<u>5,341</u>	<u>5,815</u>	<u>6,246</u>
Amounts paid and due to service agencies	5,089	5,013	5,027
Lifeline administration	30	71	21
Lifeline credits	197	385	528
Connectivity initiative	-	667	423
High cost	172	1,062	475
Administrative costs	108	103	106
Total operating expenses	<u>5,596</u>	<u>7,301</u>	<u>6,580</u>
Interest income	<u>19</u>	<u>24</u>	<u>10</u>
Change in fund balance	<u>\$ (236)</u>	<u>\$ (1,462)</u>	<u>\$ (324)</u>

FINANCIAL HIGHLIGHTS

The VUSF unrestricted fund balance as of June 30, 2019 and 2018, was approximately \$317 thousand and \$407 thousand, respectively. The VUSF restricted fund balance for Connectivity Fund as of June 30, 2019 and 2018, was approximately \$921 thousand and \$1.068 million, respectively. The VUSF total assessments for fiscal years 2019 and 2018 were approximately \$5.327 million and \$5.811 million, respectively. The VUSF total wholesale performance plan for fiscal years 2019 and 2018 was approximately \$2 thousand and \$3 thousand, respectively. The VUSF total late payment charges for fiscal years 2019 and 2018 were approximately \$5 thousand and \$1 thousand, respectively. The VUSF total other revenue – Connectivity tower rental fee for fiscal years 2019 and 2018 was approximately \$7 thousand and \$0, respectively. The VUSF total amounts paid and due to service agencies for fiscal years 2019 and 2018 were approximately \$5.089 million and \$5.013 million, respectively. The VUSF total lifeline administration for fiscal years 2019 and 2018 was approximately \$30 thousand and \$71 thousand, respectively. The VUSF total lifeline credits for fiscal years 2019 and 2018 were approximately \$197 thousand and \$386 thousand, respectively. The VUSF total connectivity initiative expense for fiscal years 2019 and 2018 was approximately \$0 and \$667 thousand, respectively. The VUSF total high cost expense for fiscal years 2019 and 2018 was approximately \$172 thousand and \$1.062 thousand, respectively. The VUSF total administrative costs for fiscal years 2019 and 2018 were approximately \$108 thousand and \$103 thousand, respectively. The VUSF total bad debt expense for fiscal years 2019 and 2018 were approximately \$1 thousand and \$0, respectively.

As of June 30, 2019, the VUSF had a receivable balance of approximately \$355 thousand consisting primarily of receivable from contributors. Amounts payable include payables to service agencies of \$65 thousand, payable to contributors – lifeline assistance of \$13 thousand, payable to contributors – lifeline administrative expenses of \$2 thousand, payable to contributors of \$11 thousand, and accounts payable and accrued expenses of \$26 thousand. This compares to a receivable balance as of June 30, 2018, of approximately \$407 thousand consisting primarily of receivable from contributors. Amounts payable include payables to service agencies of \$42 thousand, payable to contributors – lifeline assistance of \$18 thousand, payable to contributors – lifeline administrative expenses of \$5 thousand, payable to contributors of \$11 thousand, and accounts payable and accrued expenses of \$24 thousand. The VUSF maintained an adequate cash flow and balance of funds to satisfy all obligations during 2019 and 2018.

Vermont Universal Service Fund

Management's Discussion and Analysis

2019 AND 2018 COMPARISON

Management notes the following five line items with significant variances between balances in 2019 and 2018: 1) Cash and cash equivalents; 2) Assessment revenues; 3) Lifeline credits 4) Connectivity initiative; and 5) High cost.

Cash and Cash Equivalents

The decrease in Cash and cash equivalents was primarily due to the excess of payments over receipts in fiscal year 2019.

Assessment Revenues

The decrease in assessments was due to lower total billed retail revenues. There are less contributors and overall customer demand for telephony has been decreasing. The assessment rate did not change during 2019.

Lifeline Credits

The decrease in Lifeline credits was due to a decrease in Lifeline customers.

Connectivity Initiative

No Connectivity initiative disbursement was authorized in 2019.

High Cost

The decrease in High Cost was due to fewer payments to the High Cost program were authorized in 2019.

2018 AND 2017 COMPARISON

Management notes the following four line items with significant variances between balances in 2018 and 2017: 1) Cash and cash equivalents; 2) Assessment revenues; 3) Connectivity initiative; and 4) High cost.

Cash and Cash Equivalents

The decrease in Cash and cash equivalents was primarily due to the Connectivity Initiative and High Cost programs and decrease in cash receipts from contributors as a result of lower assessments.

Assessment Revenues

The decrease in assessments was due to lower total billed revenues. There are less contributors and overall customer demand for telephony has been decreasing. The assessment rate did not change during 2018.

Connectivity Initiative

The increase in Connectivity initiative was due to authorized payments to the initiative during 2018.

High Cost

The increase in High Cost was due to payments authorized in 2018 as part of the Connectivity Initiative created by the VSPD.

Vermont Universal Service Fund Management's Discussion and Analysis

2019 BUDGET AND ACTUAL COMPARISON

	(In Thousands)		
	Budget	Actual	Variance
Revenues	\$ 5,581	\$ 5,360	\$ (221)
Expenditures			
Lifeline	279	197	(82)
Lifeline admin	86	30	(56)
E 911	4,831	4,831	-
TRS	186	214	28
Equipment disbursement	5	44	39
High cost	-	172	172
Program administration	73	73	-
Bad debt expense	-	1	1
Bank fees	17	15	(2)
Audit fees	18	19	1
	5,495	5,596	101
Revenues over (under) expenditures	\$ 86	(236)	\$ (322)
Fund balance, beginning of year		1,475	
Fund balance, end of year		\$ 1,239	

Revenues were below budget mainly because there are less contributors and overall customer demand for telephony has been decreasing.

Vermont Universal Service Fund Management's Discussion and Analysis

2018 BUDGET AND ACTUAL COMPARISON

	(In Thousands)		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues	\$ 6,037	\$ 5,839	\$ (198)
Expenditures			
Lifeline	530	385	(145)
Lifeline admin	27	71	44
E 911	4,842	4,842	-
TRS	199	185	(14)
Equipment disbursement	150	(14)	(164)
Connectivity initiative	-	667	667
High cost	-	1,062	1,062
Program administration	72	72	-
Bank fees	17	15	(2)
Audit fees	18	16	(2)
Total expenditures	<u>5,855</u>	<u>7,301</u>	<u>1,446</u>
Revenues over (under) expenditures	<u>\$ 182</u>	(1,462)	<u>\$ (1,644)</u>
Fund balance, beginning of year		<u>2,937</u>	
Fund balance, end of year		<u>\$ 1,475</u>	

Expenses were above budget primarily due to authorized disbursements to the Connectivity Initiative and High Cost programs.

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Vermont Universal Service Fund
Balance Sheets
(In Thousands)

ASSETS

	June 30,	
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 883	\$ 1,068
Receivable from contributors	472	507
	<hr/>	<hr/>
Total current assets	\$ 1,355	\$ 1,575
	<hr/> <hr/>	<hr/> <hr/>

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES		
Payable to service agencies	\$ 65	\$ 42
Payable to contributors - lifeline assistance	13	18
Payable to contributors - lifeline administration	2	5
Payable to contributors	11	11
Accounts payable and accrued expenses	26	24
	<hr/>	<hr/>
Total current liabilities	117	100
	<hr/>	<hr/>
FUND BALANCE		
Fund balance - unrestricted	317	407
Fund balance - restricted, connectivity fund	921	1,068
	<hr/>	<hr/>
Total fund balance	1,238	1,475
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,355	\$ 1,575
	<hr/> <hr/>	<hr/> <hr/>

Vermont Universal Service Fund
Statements of Revenues, Expenditures and Changes in Fund Balance
(In Thousands)

	For the Years Ended June 30,	
	2019	2018
REVENUES		
Assessments	\$ 5,327	\$ 5,811
Wholesale performance plan	2	3
Late payment charges	5	1
Connectivity tower rental	7	-
Total revenues	<u>5,341</u>	<u>5,815</u>
EXPENDITURES		
Amounts paid and due to service agencies	5,089	5,013
Lifeline administration	30	71
Lifeline credits	197	385
Connectivity initiative	-	667
High cost	172	1,062
Administrative costs	108	103
Total expenditures	<u>5,596</u>	<u>7,301</u>
NON-OPERATING INCOME		
Interest income	19	24
DEFICIENCY OF REVENUES OVER EXPENDITURES	(236)	(1,462)
FUND BALANCE - UNRESTRICTED, beginning of year	407	564
FUND BALANCE - RESTRICTED, beginning of year	<u>1,068</u>	<u>2,373</u>
Total fund balance, beginning of year	<u>1,475</u>	<u>2,937</u>
FUND BALANCE - UNRESTRICTED, end of year	317	407
FUND BALANCE - RESTRICTED, end of year	<u>921</u>	<u>1,068</u>
Total fund balance, end of year	<u>\$ 1,238</u>	<u>\$ 1,475</u>

Vermont Universal Service Fund

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

Description of Entity

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, and 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 three years. In accordance with terms of the new contract signed in July 2018, Solix, Inc. will act as Fiscal Agent for the period of July 1, 2018 through June 30, 2021.

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 fiscal years 2019 and 2018.

Special Revenue Fund

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

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 period 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, expenditures, and changes in fund balance is misstated 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.

Accounting 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Vermont Universal Service Fund

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash consists of deposits held in banks. 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 2.2110 percent and 1.2816 percent for the years ended June 30, 2019 and 2018, respectively. Cash equivalents consist of the following at June 30, 2019 and 2018:

Certificate of deposit (CD) through the Certificate of Deposit Account Register Service (CDARS)

Interest Rate	Issue Date	Expiration Date	2019		2018	
2.11%	6/27/2019	7/25/2019	\$	748	\$	-
1.95%	4/28/2018	7/26/2018	\$	-	\$	901

The VUSF categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The VUSF has cash equivalents of \$748 thousand and \$901 thousand that are considered Level 1 inputs as of June 30, 2019 and 2018.

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.

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 after two months are recognized in the subsequent period and were insignificant for the periods subsequent to June 30, 2019 and 2018.

Note 2 – Concentration of Credit and Business Risks

Custodial risk – Custodial risk is the risk that in the event of a financial institution failure, VUSF's deposits may not be returned. The VUSF does not have a formal policy for custodial credit 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"). The VUSF's bank deposits did not exceed amounts covered by the FDIC insurance coverage as of June 30, 2019 and 2018, respectively.

Vermont Universal Service Fund

Notes to Financial Statements

Note 2 – Concentration of Credit and Business Risks (continued)

Business risk – Assessments reflect the gross assessments for the years ended June 30, 2019 and 2018, which were \$5,327 thousand and \$5,811 thousand, respectively. Assessments to the VUSF 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 VUSF. 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.

Credit risk – None of the investments have assigned credit ratings. The VUSF follows objectives to provide safety of the principal, allow liquidity and achieve a maximum return through investments in local financial institutions and in investment pools managed by Solix.

Foreign currency risk – The VUSF has no funds deposited that are subject to foreign currency risk.

Note 3 – Administration Services Contract/Related Parties

As stated in the contract between the VPSD and Solix, Solix is paid under a not-to-exceed amount each fiscal year. The 2019 and 2018 fiscal years contracted not-to-exceed amount was \$81 thousand, and Solix's actual service costs totaled approximately \$73 thousand and \$72 thousand, respectively.

The administrator is considered a related party; as per their contract, they are required to perform certain functions of management for the fund.

Note 4 – 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 years ended were as follows:

	(In Thousands)	
	June 30, 2019	June 30, 2018
Administrative costs	\$ 73	\$ 72
Bank fees	15	15
Audit fees	19	16
Bad debt expense	1	-
	<hr/>	<hr/>
Total administrative costs	<u>\$ 108</u>	<u>\$ 103</u>

Vermont Universal Service Fund Notes to Financial Statements

Note 5 – Amounts Paid and Due to Service Agents

Distributions to the State Treasurer of Vermont were made by the Administrator, as Fiscal Agent, for the years ended June 30, 2019 and 2018, 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 VPSD. 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. For the years ended June 30, 2019 and 2018, the total disbursements were \$5,488 thousand and \$7,198 thousand, respectively.

The support disbursements for the years ended were as follows:

	(In Thousands)	
	June 30, 2019	June 30, 2018
Enhanced 911	\$ 4,831	\$ 4,842
TRS	214	185
Equipment distribution	44	(14)
Total	5,089	5,013
Lifeline administration	30	71
Lifeline credits	197	385
Connectivity initiative	-	667
High cost	172	1,062
	\$ 5,488	\$ 7,198

Note 6 – Wholesale Performance Plan Stipulation and Settlement Agreement

The Wholesale Performance Plan was established by Order No. 7506 on March 25, 2015 (“WPP Agreement”). WPP is a self-executing remedy plan intended to ensure that FairPoint will provide service, access and interconnection to Competitive Local Exchange Carrier’s consistent with applicable legal requirements. It measures FairPoint’s wholesale performance. FairPoint Communications has paid \$2 thousand and \$3 thousand for Mode of Entry penalties under the WPP for the years ended June 30, 2019 and 2018, respectively.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Vermont Public Service Department
Vermont Universal Service Fund
Montpelier, Vermont

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 Vermont Universal Service Fund (VUSF) as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2019.

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 opinion 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

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

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 of 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.

Moss Adams LLP

Overland Park, Kansas

October 22, 2019