VERMONT UNIVERSAL

SERVICE FUND

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

WF&D

WAGGONER, FRUTIGER & DAUB, LLP

CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

WAGGONER, FRUTIGER & DAUB, LLP

CERTIFIED PUBLIC ACCOUNTANTS

WF&D

5006 EAST TRINDLE ROAD, SUITE 200, MECHANICSBURG, PA 17050-3647
(717) 506-1222 • FAX (717) 506-1223

www.wfdcpa.com

TIMOTHY C. WAGGONER, CPA
DAVID A. PHILLIPS, CPA
GEORGE W. LANE, CPA
BRIAN D. STRAUB, CPA
RAYMOND C. BROWN, CPA
ROBERT L. HAAR, CPA
ABRAM C. BERT, CPA
LISA M. STATLER, CPA
SUZANNE N. NYE, CPA
JENNIFER D. WAGNER, CPA
ADAM D. BARRICKMAN, CPA

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 statements of net position of the Vermont Universal Service Fund (VUSF), a special reserve fund of the State of Vermont, as of June 30, 2015 and 2014 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, 2015 and 2014, 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 26, 2015 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.

Waggoner Frutiger + Daub LLP

Mechanicsburg, Pennsylvania
October 26, 2015

VERMONT UNIVERSAL SERVICE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ending June 30, 2014 and 2015

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, 2015. 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 $3,149,136 as of June 30, 2015.
- The VTUSF total current liabilities as of June 30, 2014 were $128,621 and $81,771 as of June 30, 2015.
- The VTUSF unrestricted net position as of June 30, 2014 was $2,335,459 and $3,067,365 as of June 30, 2015.
- The VTUSF operating revenue for the year ended June 30, 2014 was $6,325,380 and $6,778,883 as of June 30, 2015.
- Non-operating revenue for the year ended June 30, 2014 was $171 and $181 as of June 30, 2015.
- The VTUSF total operating expense for the year ended June 30, 2014 was $5,956,973 and $6,047,158 as of June 30, 2015.
- The VTUSF program expense for the year ended June 30, 2014 was $5,863,223 and $5,953,158 as of June 30, 2015.
- Administrative cost for the year ended June 30, 2014 was $93,750 and $94,000 as of June 30, 2015.
- The VTUSF overall change in net position for the year ended June 30, 2014 was an increase of $731,906 from $2,335,459 at the beginning of the year to $3,067,365 at the end of the year. Net position during the previous year 2014 increased by $368,578 from $1,966,881 to $2,335,459.

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 \$6,293,936 for the year ended June 30, 2015. Total VTUSF distributions to service providers for the year ended June 30, 2014 were \$5,099,642 and were \$4,844,614 for the year ended June 30, 2015. 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, \$232,730 during 2014 and \$466,564 during 2015.

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, 2014[1]. Claimed Lifeline Administrative expenses by eligible service providers were \$56,635 and Lifeline credits to customers were \$601,909 for the year ended June 30, 2015.

2014 Act 179D.101(a)(4) payments for the year ended June 30, 2015 were \$450,000.

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 2015 increased \$448,618. Cash and cash equivalents at year end June 30, 2015 were \$2,311,935, which was an increase in cash and cash equivalents and short term investments of 24%.

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 required providers of prepaid wireless telecommunications services to begin contributing to the VTUSF.

By letter dated May 21, 2015 Rolka Loube was advised by the Chairman of the Vermont Public Service Board that pursuant to the then recently passed legislation (House Bill No. 117), as of July 1, 2015, the authority to select the fiscal agent will transfer to the Vermont Department of Public Service ("Department"). Consequently the Board would take no further action with respect to the bid submitted in response to the January 16, 2015 request for proposals to administer the VT USF for the period beginning July 1, 2015.

By email dated May 22, 2015 from David Tauscher, Administrative Services Director, Vermont Public Service Department, Rolka Loube was advised that pursuant to H. 117, Sec 7. 30 V.S.A. § 7503 (b) "The fiscal agent shall be selected by the Commissioner of Public Service after competitive bidding" and that the Department would consider our response to the RFP as if it had been issued by the Department.

By email dated June 10, 2015 Mr. Clay Purvis, Telecommunications Specialist, Department of Public Service, advised Rolka Loube that the Department had chosen to select a different respondent and that they would be contact Rolka Loube regarding the transfer of responsibility to the new fiscal agent.

By telephone followed by email correspondence on June 19, 2015 Mr. Purvis advised Rolka Loube that the administrator selected by the Department is Solix Inc. and identified specific items that Solix had requested.

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[1] See Vermont Universal Service Fund Statements of Revenues, Expenses and Changes in Net Position, Years Ended June 30, 2014 and 2015.

VERMONT UNIVERSAL SERVICE FUND
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

ASSETS

		2015	2014
CURRENT ASSETS			
Cash and cash equivalents	$	2,311,935	1,863,317
Receivable from contributors		565,600	528,322
Accounts receivable		271,583	72,427
Interest receivable		18	14
Total assets	$	3,149,136	2,464,080

LIABILITIES AND NET POSITION

		2015	2014
CURRENT LIABILITIES			
Payable to service providers	$	23,773	45,449
Payable to contributors - lifeline assistance		44,191	59,262
Payable to contributors - lifeline administrative expenses		3,189	2,500
Payable to contributors		10,618	21,410
Total liabilities		81,771	128,621
NET POSITION			
Unrestricted		3,067,365	2,335,459
Total liabilities and net position	$	3,149,136	2,464,080

See accompanying notes.

VERMONT UNIVERSAL SERVICE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
OPERATING REVENUES		
Assessments	$ 6,293,936	6,088,625
Performance assurance plan penalty	466,564	232,730
Late payment charges	18,383	4,025
Total operating revenues	6,778,883	6,325,380
OPERATING EXPENSES		
Program expenses		
Amounts paid and due to service providers	4,844,614	5,099,642
Lifeline administration	56,635	30,226
Lifeline credits	601,909	733,355
2014 Act 179 D.101(a)(4) payment	450,000	-
Total program expenses	5,953,158	5,863,223
Administrative costs	94,000	93,750
Total operating expenses	6,047,158	5,956,973
Operating income (loss)	731,725	368,407
NON-OPERATING REVENUES		
Interest income	181	171
Total non-operating revenues	181	171
Increase (decrease) in net position	731,906	368,578
NET POSITION , BEGINNING OF YEAR	2,335,459	1,966,881
NET POSITION, END OF YEAR	$ 3,067,365	2,335,459

See accompanying notes.

VERMONT UNIVERSAL SERVICE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

		2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from telecommunication carriers	$	6,256,658	6,156,148
Performance assurance plan penalty		466,564	232,730
Late payment charges		18,383	4,025
Payments for telecommunication programs		(5,076,238)	(5,243,760)
Payment for lifeline administration		(55,946)	(30,919)
Payment for lifeline credit		(616,980)	(741,451)
Payment for 2014 Act 179 D.101 (a) (4)		(450,000)	--
Cash paid for administrative costs		(94,000)	(93,750)
Net cash provided by operating activities		448,441	283,023
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		177	168
Net cash provided by investing activities		177	168
Net increase in cash and cash equivalents		448,618	283,191
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR		1,863,317	1,580,126
CASH AND CASH EQUIVALENTS-END OF YEAR	$	2,311,935	1,863,317

		2015	2014
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES			
Operating income (loss)	$	731,725	368,407
CHANGES IN ASSETS AND LIABILITIES			
(Increase) decrease in receivable from contributors		(37,278)	67,523
Increase (decrease) in payable to service providers		(231,624)	(144,118)
Increase (decrease) in payable to contributors		(14,382)	(8,789)
Net cash provided by operating activities	$	448,441	283,023

See accompanying notes.

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. As of July 1, 2015, the authority to select the administrator for the VUSF was transferred to the Vermont Department of Public Service.

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 1.82 percent of total retail telecommunications revenue for the period July 1, 2013 to August 31, 2013 an assessment rate of 1.80 percent of total retail telecommunications revenue for the period September 1, 2013 to June 30, 2014 and an assessment rate of 2.00 percent of total retail telecommunications revenue for the period July 1, 2014 to June 30, 2015.

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, 2015 and 2014, 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, 2015 and 2014.

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.

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, 2015 and 2014 which were $6,293,936 and $6,088,625 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, 2015 and 2014 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, 2015, and 2014, 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. During the year ended June 30, 2015, the Fund was required to transfer $450,000 to the Communications and Information Technology Internal Service Fund per 2014 Act 179 D.101(a)(4). The amounts incurred by the Fund are as follows:

	2015	2014
Enhanced 911 board	$ 4,604,830	4,789,018
Telecommunications relay service	205,940	243,947
Equipment distribution	33,844	66,677
Total	4,844,614	5,099,642
Lifeline administration	56,635	30,226
Lifeline credits	601,909	733,355
2014 Act 179 D.101(a)(4) payment	450,000	--
Total program expenses	$ 5,953,158	5,863,223

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 Associates was the Administrator during the years ended June 30, 2015 and 2014. During the years ended June 30, 2015 and 2014, the administrative costs were as follows:

	2015	2014
Administrative fees	$ 78,000	78,000
Audit fees	16,000	15,750
Total administrative costs	$ 94,000	93,750

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, 2015, VUSF had deposit balances in the amount of $2,311,934, of which $1,820 was insured and $2,310,114 was uncollateralized and exposed to custodial credit risk.

Three service carriers account for approximately 48 percent and 55 percent of the VUSF's assessment revenue in 2015 and 2014, respectively. No other service carrier accounted for more than 10 percent of the VUSF's assessment revenue in 2015 and 2014. 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 $466,564 in 2015 and $232,730 in 2014 for Mode of Entry (MOE) penalties under the PAP.

8. FUND ADMINISTRATION

Solix, Inc. was appointed administrator of the VUSF effective July 1, 2015. Rolka Loube Associates disbursed $2,989,656.11, on August 12, 2015 to the new administrator.

9. SUBSEQUENT EVENTS

VUSF has evaluated subsequent events through October 26, 2015, the date which the financial statements were available to be issued.

WAGGONER, FRUTIGER & DAUB, LLP

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5006 EAST TRINDLE ROAD, SUITE 200, MECHANICSBURG, PA 17050-3647
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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 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, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2015.

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 material weaknesses:

2015-01 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

2015-01 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, to include the year end accrual entries. 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.

2015-02 Reconciliations

Finding

Portions of this comment are carried forward from the prior year. In the prior year we noted a material adjustment for $72,818 was necessary to reduce Enhanced 911(E911) expense to the proper budgeted amount. In the current year an adjustment of $30,633 was required for the same reason. Additionally, the overpayment identified in the prior year was not paid back to the fund in the current year. If the Administrator had performed a reconciliation of the amounts reflected as paid (expense) in the general ledger for the year versus the budgeted amount, it is likely the overpayment would not have been made.

While compiling the Lifeline credit expense to be recorded in the general ledger we compared the Lifeline information in the database to the Administrator's monthly analysis of the amount of lifeline credits. In reviewing the analysis which includes credits by vendor, by month, we noted carriers for which there is an expectation to have 12 months of reports had missing months, primarily due to missing worksheets. Ultimately the Administrator was able to acquire the missing worksheets so the amount could be appropriately compiled, but because of the missing information, several of the monthly reports provided to the Vermont Public Service Board were incomplete. We continue to 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 and an immediate follow-up with the carrier be performed for any missing worksheets.

Typically when deposits are received they are entered in the Unapplied Receipts general ledger account. The Unapplied Receipts account is in essence a clearing 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. As such it should be reviewed on a regular basis for items that have not been cleared out and posted to the appropriate account. In the past the account is typically well under $100,000. At year end the Unapplied Receipts account had a balance of $1,237,939. As a result the carrier database assessment information was not complete throughout the year. As mentioned above, significant missing carrier worksheets were the primary cause for this large unapplied balance. There is an expectation for the larger carriers, and

<u>2015-02 Reconciliations (continued)</u>
Finding (continued)
many of the smaller carriers, that there should be reports monthly (or quarterly in some situations). We continue to recommend a review of the database on a regular basis for missing carrier report months be done and any discrepancies investigated immediately.

Response:
The Vermont Department of Public Service will work with the new VUSF Administrator to ensure a process is in place to reconcile all receipt and disbursement activity with the database and the fund general ledger.

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 2015-02. 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.

Wessner Fentzie + Dale LLP

Mechanicsburg, Pennsylvania
October 26, 2015