



**PENNSYLVANIA UNIVERSAL
SERVICE FUND**

Financial Statements

December 31, 2009 and 2008

With Independent Auditors' Report

Pennsylvania Universal Service Fund
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December 31, 2009 and 2008

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Independent Auditors' Report

To the Pennsylvania Public Utility Commission
and the Board of Directors,
Solix, Inc.

We have audited the accompanying balance sheets as of December 31, 2009 and 2008, of the Pennsylvania Universal Service Fund (PUSF), a special revenue fund of the Commonwealth of Pennsylvania administered by Solix, Inc. (Solix), and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PUSF administered by Solix as of December 31, 2009 and 2008, and the changes in fund net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2010, on our consideration of Solix as administrator for the PUSF's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control of 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* and should be considered in assessing the results of our audits.

The Management's Discussions and Analysis on page 2, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

June 30, 2010

PENNSYLVANIA UNIVERSAL SERVICE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIODS ENDED DECEMBER 31, 2009 AND 2008

This section of the Pennsylvania Universal Service Fund's financial report represents our discussion and analysis of the PUSF's financial performance during the period presented. It should be read in conjunction with the PUSF's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The PUSF's unrestricted fund balance as of December 31, 2009 and December 31, 2008 was approximately \$1.8 million.
- The PUSF's unrestricted net assets increased by approximately \$.05 million during the period January 1, 2009 through December 31, 2009.
- The PUSF's unrestricted net assets decreased by approximately \$.03 million during the period January 1, 2008 through December 31, 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements also include notes that explain key information contained in the financial statements and provide further details on select data.

As of December 31, 2009, the PUSF had net payables of \$69 thousand comprised of accounts receivables – assessments of \$43 thousand, deferred revenue of \$89 thousand, and administrative costs payable of \$23 thousand.

As of December 31, 2008, the PUSF had net payables of \$23 thousand comprised of accounts receivables – assessments of \$26 thousand, interest receivable of \$1 thousand, accounts payable – assessments of \$1 thousand, deferred revenue of \$26 thousand, and administrative costs payable of \$23 thousand.

The PUSF maintained an adequate cash flow and balance of funds to satisfy all obligations during 2009 and 2008.



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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***

Solix, Inc. as administrator for the
Pennsylvania Universal Service Fund

We have audited the financial statements of the Pennsylvania Universal Service Fund as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated June 30, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Solix, Inc.'s (Solix') internal control, in its role as administrator for the Pennsylvania Universal Service Fund (PUSF), over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Solix' internal control over financial reporting, in its role as administrator for the PUSF. Accordingly, we do not express an opinion on the effectiveness of the Solix' internal control over financial reporting, in its role as administrator for the PUSF.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as identified above.



Compliance and Other Matters

As part of obtaining reasonable assurance whether the PUSF's financial statements are free of material misstatement, we performed tests of compliance of Solix as administrator for the PUSF with certain provisions of laws, regulations, and contracts, 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*.

This report is intended solely for the information and use of the Administrator, Contract Administrator, the Pennsylvania Public Utility Commission and State Auditor's Office of the State of Pennsylvania and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Withum Smith & Brown PC". The signature is written in a cursive style.

June 30, 2010

Pennsylvania Universal Service Fund
Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Cash and cash equivalents	\$ 1,892,343	\$ 1,798,314
Accounts receivable - assessments, net	42,990	25,855
Interest receivable	<u>37</u>	<u>1,399</u>
	<u>\$ 1,935,370</u>	<u>\$ 1,825,568</u>
Liabilities and Fund Net Assets		
Accounts payable - assessments	\$ 149	\$ 1,407
Deferred revenue	88,748	26,129
Administrative costs payable	<u>23,400</u>	<u>23,400</u>
	112,297	50,936
Fund net assets - unrestricted	<u>1,823,073</u>	<u>1,774,632</u>
	<u>\$ 1,935,370</u>	<u>\$ 1,825,568</u>

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

Pennsylvania Universal Service Fund
Statements of Revenues, Expenses and Changes in Fund Net Assets
For the Years Ended December 31, 2009 and 2008

	2009	2008
Operating revenue		
Assessments	\$ 33,784,945	\$ 33,675,221
Operating expenses		
Amounts paid and due to service providers	33,578,219	33,570,452
Bad debt expense	20,543	62,290
Administrative costs	150,988	147,856
	<u>33,749,750</u>	<u>33,780,598</u>
Operating income (loss)	35,195	(105,377)
Non-operating income		
Interest income	<u>13,246</u>	<u>75,054</u>
Net change in unrestricted fund net assets	48,441	(30,323)
Fund net assets - unrestricted		
Beginning of period	<u>1,774,632</u>	<u>1,804,955</u>
End of period	<u>\$ 1,823,073</u>	<u>\$ 1,774,632</u>

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

Pennsylvania Universal Service Fund
Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Receipts from assessments and service providers	\$ 33,809,886	\$ 33,681,069
Cash paid to service providers	(33,579,477)	(33,594,654)
Cash paid for administrative costs	<u>(150,988)</u>	<u>(147,856)</u>
Net cash provided by (used in) operating activities	79,421	(61,441)
Cash flows from investing activities		
Interest income	<u>14,608</u>	<u>75,633</u>
Change in cash and cash equivalents	94,029	14,192
Cash and cash equivalents		
Beginning of period	<u>1,798,314</u>	<u>1,784,122</u>
End of period	<u>\$ 1,892,343</u>	<u>\$ 1,798,314</u>
Reconciliation of net cash provided by (used in) operating activities		
Operating income (loss)	\$ 35,195	\$ (105,377)
Changes in assets and liabilities		
Increase (decrease) in accounts receivable - assessments	(17,135)	90,107
Decrease in accounts payable - assessments	(1,258)	(24,202)
Increase (decrease) in deferred revenue	<u>62,619</u>	<u>(21,969)</u>
Net cash provided by (used in) operating activities	<u>\$ 79,421</u>	<u>\$ (61,441)</u>

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

Pennsylvania Universal Service Fund

Notes to Financial Statements

December 31 2009 and 2008

1. General

On September 30, 1999, the Pennsylvania Public Utility Commission (PPUC) issued an Order at Docket Nos. P-00991648 and P-00991649 (Global Order), as amended by the Order entered November 5, 1999, and as amended by the Proposed Order in Rulemaking Re: Establishing Universal Service Fund Regulations at 52 Pa.Code §§63.141-63.151, Docket No. L-00000148, (3/23/01), to create the Pennsylvania Universal Service Fund (PUSF). The PUSF was established to both reduce and restructure access charges and further the opportunity for development of local competition. The PUSF is a means to reduce access and toll rates for the ultimate benefit of the end-user and to encourage greater toll competition, while enabling carriers to continue to preserve the affordability of local service rates.

The PUSF is funded by an assessment on all Pennsylvania telecommunications service providers that provide intrastate telecommunications services (excluding wireless carriers) and is paid, via a monthly remittance advice, to Solix, Inc. (Solix), which was selected by the PPUC to act as Administrator of the Fund through December 31, 2010. Carriers contribute a fixed monthly assessment amount based on company-specific revenues. Eligible recipients receive fixed monthly support payments from the PUSF as approved by the PPUC.

2. Summary of Significant Accounting Policies

Basis of Presentation

These statements have been prepared on the accrual basis in accordance with the Governmental Accounting Standards Board (GASB). For the years ended December 31, 2009 and 2008, the PUSF had accounting transactions in the unrestricted fund net assets only. The PUSF's financial statement presentation follows the accounting guidance related to Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments and amendments. This accounting guidance, as amended, establishes standards for financial reporting for state and local governments.

Use of Estimates

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

Revenue Recognition

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

Receivables and Credit Policies

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

Pennsylvania Universal Service Fund
Notes to Financial Statements
December 31, 2009 and 2008

3. Cash and Cash Equivalents

As part of its cash management program, Solix maintains a portfolio of daily valued money market funds. The carrying value of such funds approximates market due to their short-term nature. Surplus funds of the PUSF are invested in two money market funds maintained by two national financial institutions. Interest is credited to the PUSF when earned and the interest rate for the years ended December 31, 2009 and 2008 averaged 0.47% and 2.89%, respectively.

4. Allowance for Doubtful Accounts

Allowance for doubtful accounts amounted to \$5,427 and \$91,352 at December 31, 2009 and 2008, respectively, to provide for anticipated uncollectible amounts from certain carriers. Uncollectible contributions of \$106,468 and \$46,477 were written off during the years ended December 31, 2009 and 2008, respectively.

5. Assessments

Identified carriers that are operating in the Commonwealth of Pennsylvania, excluding wireless service providers, provide assessments to the Fund. The PPUC notifies Solix when new carriers are certified to offer service in the Commonwealth of Pennsylvania. The carriers are assessed at a flat rate based on the intrastate revenue of two years prior. The assessment rate for the years ending December 31, 2009 and 2008 was 1.11 and 1.08 percent, respectively. The gross assessment totaled \$33,784,945 and \$33,675,221 for the years ending December 31, 2009 and 2008, respectively.

6. Amounts Paid and Due to Service Providers

Universal Service Support Payments to the qualified recipients are made by Solix as directed by the PPUC. The qualified recipients receive payments in order to neutralize the revenue deficits created by mandated decreases in toll and access charges. For the years ended December 31, 2009 and 2008 the PUSF determined that approximately \$33,578,219 and \$33,570,452, respectively, in support payments were due to service providers.

7. Administrative Costs

As stated in the Contract, Solix is reimbursed a fixed amount each fiscal year plus any allowable variable costs, as defined. Such variable costs include customary, reasonable and necessary expenses incurred by Solix in performance of services, including payments to an independent accountant for an annual audit, extraordinary legal work provided by external counsel, taxes, application fees, licensing fees, and similar expenses.

The administrative fee for the years ended December 31, 2009 and 2008 was \$127,588 and \$124,476, respectively. On May 31, 2007, the PPUC awarded the administrative duties to Solix through December 31, 2010. For the year ended December 31, 2010, the PUSF will pay administrative fees of \$130,778 to Solix.

The administrative costs were as follows:

	2009	2008
Administrative fees	\$ 127,588	\$ 124,476
External audit fees	<u>23,400</u>	<u>23,380</u>
	<u>\$ 150,988</u>	<u>\$ 147,856</u>

Pennsylvania Universal Service Fund
Notes to Financial Statements
December 31, 2009 and 2008

8. Income Taxes

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

9. Concentration of Credit Risk

Solix maintains a portion of the PUSF's cash and cash equivalents in bank deposit accounts, which may at times exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). Accounts at these institutions are insured by the FDIC up to \$250,000, through December 31, 2013. As of October 14, 2008, transaction accounts covered by the FDIC's Transaction Account Guarantee Program are fully insured by the FDIC until December 31, 2010. Additionally, the U.S. Treasury has guaranteed money market balances as of September 18, 2008, under the U.S. Treasury Department Temporary Guarantee Program. This guarantee expired September 18, 2009. Since these are high quality financial institutions, management does not believe the Fund is exposed to any significant credit risk on its cash and cash equivalent balances.

One carrier represents approximately 46% of operating revenue assessments for the years ended December 31, 2009 and 2008. One carrier represents 54% of the accounts receivable – assessments at December 31, 2009. No carriers represented a material balance of the net accounts receivable – assessments as of December 31, 2008.

10. Subsequent Events

Management has evaluated subsequent events occurring after the balance sheet date through the date of June 30, 2010, which is the date the financial statements were available to be issued. Based on this evaluation, Management has determined that no subsequent events have occurred which require disclosure in the financial statements.