

PENNSYLVANIA UNIVERSAL SERVICE FUND

Financial Statements

December 31, 2016 and 2015

With Independent Auditors' Report

Pennsylvania Universal Service Fund
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December 31, 2016 and 2015

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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 of the Pennsylvania Universal Service Fund (PUSF), a special revenue fund of the Commonwealth of Pennsylvania administered by Solix, Inc. (Solix), as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in fund net assets, and statements of cash flows for the years then ended, and the related notes to the financial statements, comprising the PUSF's basic financial statements. These financial statements are the responsibility of the PUSF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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.

Auditors' 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 auditors' 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 the PUSF, administered by Solix, as of December 31, 2016 and 2015, and the changes in net assets and cash flows for the fiscal years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussions and Analysis on the following page 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 May 10, 2017 on our consideration of Solix as administrator for the PUSF's internal control over financial reporting and on 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 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 Solix' internal control over financial reporting.

Hurlbert CPA LLC

HURLBERT CPA LLC
Liberty, MO
May 10, 2017

**PENNSYLVANIA UNIVERSAL SERVICE FUND
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Pennsylvania Universal Service Fund’s (PAUSF) annual financial report represents our discussion and analysis of the PAUSF’s financial performance during the fiscal years that ended on December 31, 2016 and 2015. It should be read in conjunction with the PAUSF’s financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management’s discussion and analysis and the basic financial statements. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

COMPARATIVE CONDENSED FINANCIAL INFORMATION

	(In Thousand)	
	2016	2015
Cash and Cash Equivalents	\$ 2,301	\$ 2,268
Accounts Receivable	66	3
Total Assets	<u>\$ 2,367</u>	<u>\$ 2,271</u>
Payable to contributors	\$ 1	\$ 0
Deferred Revenue	27	1
Accounts Payable and Accrued Expenses	25	25
Total Liabilities	<u>53</u>	<u>26</u>
Fund Net Assets, Unrestricted	2,314	2,245
Total Liabilities and Fund Net Assets	<u>\$ 2,367</u>	<u>\$ 2,271</u>
Assessments	\$ 34,019	\$ 34,393
Total Revenues	34,019	34,393
Amounts Paid and Due to Service Providers	33,826	33,826
Bad debt expense (recovery)	10	(2)
Administrative Costs	125	123
Total Operating Expenses	<u>33,961</u>	<u>33,947</u>
Non-Operating Revenue	11	3
Change in Fund Net Assets	<u>\$ 69</u>	<u>\$ 449</u>

FINANCIAL HIGHLIGHTS

The PAUSF restricted fund net assets as of December 31, 2016 and 2015 were approximately \$2.3 million and \$2.2 million, respectively. The PAUSF total assessments for fiscal years 2016 and 2015 were approximately \$34.019 million and \$34.393 million, respectively. For fiscal year 2016, PAUSF unrestricted fund net assets increased due to an increase in the assessment rate. The PAUSF total amounts paid and due to service providers for fiscal years 2016 and 2015 were approximately \$33.826 million and \$33.826 million, respectively. The PAUSF total administrative costs for fiscal years 2016 and 2015 were approximately \$125 thousand and \$123 thousand, respectively. The PAUSF interest income for fiscal years 2016 and 2015 was approximately \$11 thousand and \$3 thousand, respectively.

As of December 31, 2016, the PAUSF had net receivables of approximately \$13 thousand, comprised of accounts receivable of \$66 thousand, deferred revenue of \$27 thousand, payable to contributors of \$1 thousand, and accrued expenses of \$25 thousand. This compares to a net payable of approximately \$23 thousand as of December 31, 2015, which consisted primarily of accounts receivable of \$3 thousand, deferred revenue of \$1 thousand and accrued expenses of \$25 thousand. The PAUSF maintained an adequate cash flow and balance of funds to satisfy all obligations.

2016 AND 2015 COMPARISON

Management notes the following three line items with significant variances between balances in 2016 and 2015: 1) Cash and cash equivalents; 2) Accounts receivable; and 3) Deferred revenue.

Cash and cash equivalents

The increase in Cash and cash equivalents is primarily due to an increase in the assessment rate from 1.66 percent to 1.74 percent.

Accounts Receivable

Accounts Receivable increased due to a contributor who paid into the fund late, after the end of the fiscal year.

Deferred revenue

The increase in deferred revenue was impacted by a group of customers who prepaid their assessments prior to the due date in 2016 and who paid at the due date for 2015.

PENNSYLVANIA UNIVERSAL SERVICE FUND

BALANCE SHEETS

AS OF DECEMBER 31, 2016 AND 2015

(IN THOUSANDS)

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,301	\$ 2,268
Accounts receivable - assessments	66	3
TOTAL ASSETS	\$ 2,367	\$ 2,271
 LIABILITIES AND FUND NET ASSETS		
Current Liabilities:		
Payable to contributors	\$ 1	\$ -
Deferred revenue	27	1
Accounts payable and accrued expenses	25	25
TOTAL CURRENT LIABILITIES	53	26
Fund Net Assets - Unrestricted	2,314	2,245
TOTAL LIABILITIES AND FUND NET ASSETS	\$ 2,367	\$ 2,271

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, 2016 AND 2015

(IN THOUSANDS)

	<u>2016</u>	<u>2015</u>
Operating Revenue:		
Assessments	\$ 34,019	\$ 34,393
Operating Expenses:		
Amounts paid and due to service providers	33,826	33,826
Bad debt expense (recovery)	10	(2)
Administrative costs	<u>125</u>	<u>123</u>
Total Operating Expenses	<u>33,961</u>	<u>33,947</u>
Operating Income	58	446
Non-Operating Income:		
Interest income	<u>11</u>	<u>3</u>
Net Increase in Unrestricted Fund Net Assets	69	449
Fund Net Assets - Unrestricted, Beginning of Period	<u>2,245</u>	<u>1,796</u>
Fund Net Assets - Unrestricted, End of Period	<u><u>\$ 2,314</u></u>	<u><u>\$ 2,245</u></u>

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

PENNSYLVANIA UNIVERSAL SERVICE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

	2016	2015
Cash Flows from Operating Activities:		
Receipts from assessments and service providers	\$ 33,973	\$ 34,304
Cash paid to service providers	(33,826)	(33,826)
Cash paid for administrative costs	(125)	(123)
Net Cash Provided by Operating Activities	22	355
 Cash Flows from Investing Activities:		
Interest income	11	3
Net Cash Provided by Investing Activities	11	3
Increase in Cash and Cash Equivalents	33	358
Cash and Cash Equivalents, Beginning of Period	2,268	1,910
Cash and Cash Equivalents, End of Period	\$ 2,301	\$ 2,268
 Reconciliation of Net Cash Provided by Operating Activities:		
Operating income	\$ 58	\$ 446
Changes in assets and liabilities:		
Decrease in accounts receivable - assessments	(63)	-
Increase (Decrease) in payable to contributors	1	(7)
Increase in deferred revenues	26	(84)
Net Cash Provided by Operating Activities	\$ 22	\$ 355

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

PENNSYLVANIA UNIVERSAL SERVICE FUND

NOTES TO FINANCIAL STATEMENTS

(In Thousands)

Note 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, (1/27/00), to create the Pennsylvania Universal Service Fund (PUSF). In addition, the Pennsylvania Public Utility Commission (Commission) on March 22, 2001, adopted a revised final rulemaking order establishing a universal service funding mechanism, implementing revenue-neutral rate reform and resolving interconnection issues in the telecommunications industry. 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 Pennsylvania telecommunications service providers that provide intrastate telecommunications services (excluding wireless carriers) and is paid, via a monthly remittance advice, to Solix, Inc., whose contract to act as Administrator of the Fund was granted by the PPUC through June 30, 2016. A one-year extension from July 1, 2016 through June 30, 2017, was exercised on March 1, 2016. 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.

Note 2 - Summary of Significant Accounting Policies:

A. 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, 2016 and 2015 the PUSF had accounting transactions in the unrestricted fund net assets only. The PUSF's financial statement presentation follows the recommendation of GASB No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and amendments. GASB No. 34, as amended, establishes standards for financial reporting for state and local governments.

B. 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.

C. 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 PUC regulations. It is the PUSF's policy to record revenues in the period earned. Received advances or prepayments are not recognized as revenues, but as deferred revenues.

D. 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.

E. Special Revenue Fund

The PUSF is considered a special revenue fund of the State of Pennsylvania. The financial statements presented are not a reflection of the financial position or changes in financial position of the State of Pennsylvania.

Note 3 – Cash and Cash Equivalents:

As part of its cash management program, Solix maintains a portfolio of daily valued money market funds for the PUSF. 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 Funds For Institutions – Premier Institutional Fund and Invesco Short-term Investment Trust – Liquid Assets Portfolio. Interest is credited to the PUSF when earned and the interest rate for the years ended December 31, 2016 and 2015 averaged 0.27% and 0.07%, respectively.

Note 4 – Allowance for Doubtful Accounts

Allowance for doubtful accounts amounted to \$0 and \$9 at December 31, 2016 and 2015 to provide for anticipated uncollectible amounts from certain carriers. Uncollectible contributions of \$9 and \$7 were written off during the years ended December 31, 2016 and 2015.

Note 5 - Assessments:

Identified carriers that are operating in the Commonwealth of Pennsylvania, excluding wireless service providers, provide assessments to the Fund. In addition, 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 ended December 31, 2016 and 2015 was 1.74 and 1.66 percent, respectively. The gross assessments totaled \$34,019 and \$34,393 for the years ended December 31, 2016 and 2015, respectively.

Note 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, 2016 and 2015, the PUSF determined that approximately \$33,826 and \$33,826, respectively, in support payments were due to service providers.

Note 7 - Administrative Costs:

As stated in the Contract, Solix is reimbursed a fixed amount each fiscal year plus any allowable variable costs. Payments to an independent accountant for an annual audit are paid out of the fund. The administrative fee for the year ended December 31, 2016 and 2015 was \$102 and \$100, respectively. Solix is under contract as the administrator of the PUSF through June 30, 2017. The administrative costs were approximately as follows:

	<u>2016</u>	<u>2015</u>
Solix administrative fees	\$ 102	\$ 100
External audit fees	23	23
	<u>\$ 125</u>	<u>\$ 123</u>

Note 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.

Note 9 - Concentration of 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”). At December 31, 2016 and 2015, the cash and cash equivalents of the Fund were invested in money market funds.

Custodial Credit Risk - Deposits in financial institutions, reported as components of cash, had a bank balance of \$2,301 and \$2,268 at December 31, 2016 and 2015, respectively. The Fund maintains its cash balances at various financial institutions and may at times exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC).

Investment interest rate risk - The Fund has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The policy has stated investment objectives that include the preservation of capital and the liquidity of investments to ensure the Fund’s ability to meet cash needs.

Investment credit risk - The Fund maintains cash deposits and investments which are authorized by the PPUC.

Concentration of investment credit risk - The Fund places no limit on the amount it may invest in any one issuer.

One carrier represents 35 percent and 37 percent of operating revenue assessments for the years then ended December 31, 2016 and 2015, respectively.

Note 10 - Subsequent Events

Management has evaluated subsequent events occurring after the balance sheet date through the date of May 10, 2017, 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.

**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***

Independent Auditors' Report

Solix, Inc. as administrator for the
Pennsylvania 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 Pennsylvania Universal Service Fund, which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses and changes in fund net assets and statements of cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated May 10, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Solix, Inc.'s (Solix') internal control, in its role as administrator for the Pennsylvania Universal Service Fund (PUSF), 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 Solix' internal control. Accordingly, we do not express an opinion on the effectiveness of Solix' 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 PUSF'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 on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hurlbert CPA LLC

HURLBERT CPA LLC
Liberty, MO
May 10, 2017

PENNSYLVANIA UNIVERSAL SERVICE FUND

**Required Communications and
Management Letter**

For the Year Ended December 31, 2016

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

We have audited the financial statements of the governmental activities of the Pennsylvania Universal Service Fund (the Fund) for the year ended December 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Fund are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Fund during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Significant accounting estimates used by the Fund's management include the allowance for doubtful accounts. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no known or likely misstatements identified during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 10, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the governmental activities of the Pennsylvania Universal Service Fund as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Fund’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

As part of our annual audit, we try to identify opportunities for improving the management of financial resources and for improving the internal controls over financial reporting. We are submitting, for your consideration, our observations and recommendations with regard to these matters.

CURRENT YEAR COMMENTS - NONE

CONCLUSION

We hope the above comments are beneficial. We would welcome the opportunity to provide additional information or assistance regarding internal controls or enhancement of operational efficiency or to assist in the implementation of suggestions or recommendations made during our audit.

Our audit procedures required us to obtain an understanding of controls over primary systems affecting the financial statement amounts. The Fund may be able to benefit from additional, in-depth reviews of internal controls in other areas. We look forward to discussing opportunities to continue to assist the Fund.

This information is intended solely for the use of the Public Utility Commission of Pennsylvania and management of the Pennsylvania Universal Service Fund and is not intended to be and should not be used by anyone other than these specified parties.

Hurlbert CPA LLC

May 10, 2017

Hurlbert CPA, LLC
Liberty, MO