

**PENNSYLVANIA UNIVERSAL SERVICE FUND**

**Financial Statements**

**December 31, 2017 and 2016**

**With Independent Auditors' Report**



**Pennsylvania Universal Service Fund  
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December 31, 2017 and 2016**

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## Independent Auditors' Report

To the Pennsylvania Public Utility  
Commission and GVNW

We have audited the accompanying balance sheets of the Pennsylvania Universal Service Fund (PAUSF), a special revenue fund of the Commonwealth of Pennsylvania administered by GVNW (7/1/2017 – 12/31/2017) and Solix, Inc. (1/1/2017 – 6/30/2017) as of December 31, 2017 and 2016, 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 PAUSF's basic financial statements. These financial statements are the responsibility of the PAUSF'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 PAUSF, administered by GVNW and Solix, as of December 31, 2017 and 2016, 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.

## **Emphasis of Matter**

As discussed in Note 2E, the financial statements present only the PAUSF and do not purport to and do not present fairly the financial position of the Commonwealth of Pennsylvania as of December 31, 2017 and 2016, 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 budgetary comparison on pages 5 through 6 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 June 27, 2018 on our consideration of the PAUSF'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 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 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 PAUSF's internal control over financial reporting and compliance.

*Hurlbert CPA LLC*

HURLBERT CPA LLC  
Liberty, MO  
June 27, 2018

**PENNSYLVANIA UNIVERSAL SERVICE FUND  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016. 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 data that are more detailed.

**COMPARATIVE CONDENSED FINANCIAL INFORMATION**

At December 31 (Dollars in thousands)	2017	2016
Cash and Cash Equivalents	\$ 2,385	\$ 2,301
Account Receivable	\$ 54	\$ 66
<b>Total Assets</b>	<b>\$ 2,439</b>	<b>\$ 2,367</b>
Payable to Contributors	\$ -	\$ 1
Deferred Revenue	\$ -	\$ 27
Accounts Payable and Accrued Expenses	\$ -	\$ 25
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 53</b>
<b>Fund Net Assets</b>	<b>\$ 2,439</b>	<b>\$ 2,314</b>
<b>Total Liabilities &amp; Fund Net Assets</b>	<b>\$ 2,439</b>	<b>\$ 2,367</b>
Assessments	\$ 34,060	\$ 34,019
<b>Total Revenues</b>	<b>\$ 34,060</b>	<b>\$ 34,019</b>
Amounts Paid and Due to Service Providers	\$ 33,826	\$ 33,826
Bad debt expense (recovery)	\$ -	\$ 10
Administrative Costs	\$ 159	\$ 125
<b>Total Operating Expenses</b>	<b>\$ 33,985</b>	<b>\$ 33,961</b>
Non-Operating Revenue	\$ 25	\$ 11
<b>Change in Fund Net Assets</b>	<b>\$ 100</b>	<b>\$ 69</b>

## **FINANCIAL HIGHLIGHTS**

The PAUSF fund net assets December 31, 2017 and 2016 were approximately \$2.4 million and \$2.3 million, respectively. For fiscal year 2017, PAUSF unrestricted fund net assets increased due to an increase in the assessment rate.

The PAUSF total assessments for the fiscal years 2017 and 2016 were approximately \$34.060 million and \$34.019 million, respectively. The PAUSF total amounts paid and due to service providers for fiscal years 2017 and 2016 were the same for both years at approximately \$33.826 million.

The PAUSF total administrative costs for fiscal years 2017 and 2016 were approximately \$159 thousand and \$125 thousand, respectively. The PAUSF interest income for fiscal years 2017 and 2016 was approximately \$25 thousand and \$11 thousand, respectively.

**PENNSYLVANIA UNIVERSAL SERVICE FUND**  
**BALANCE SHEETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
**(IN THOUSANDS)**

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 2,385	\$ 2,301
Accounts Receivable	\$ 54	\$ 66
<b>TOTAL ASSETS</b>	<b>\$ 2,439</b>	<b>\$ 2,367</b>
 <b>LIABILITIES AND FUND NET ASSETS</b>		
<b>Current Liabilities</b>		
Payable to Contributors	\$	\$ 1
Deferred Revenue	\$	\$ 27
Accounts Payable and accrued expenses	\$	\$ 25
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$</b>	<b>\$ 53</b>
<b>Fund Net Assets - Unrestricted</b>	<b>\$ 2,439</b>	<b>\$ 2,314</b>
<b>TOTAL LIABILITIES AND FUND NET ASSETS</b>	<b>\$ 2,439</b>	<b>\$ 2,367</b>

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, 2017 AND 2016**  
**(IN THOUSANDS)**

	<b>2017</b>	<b>2016</b>
<b>Operating Revenue:</b>		
Assessments	\$ 34,060	\$ 34,019
<b>Operating Expenses:</b>		
Amounts Paid and Due to Service Providers	\$ 33,826	\$ 33,826
Bad debt expense (recovery)	\$ -	\$ 10
Administrative Costs	\$ 159	\$ 125
<b>Total Operating Expenses</b>	<b>\$ 33,985</b>	<b>\$ 33,961</b>
<b>Operating Income</b>	<b>\$ 75</b>	<b>\$ 58</b>
<b>Non-Operating Income</b>		
Interest Income	\$ 25	\$ 11
<b>Net Increase in Unrestricted Fund Net Assets</b>	<b>\$ 100</b>	<b>\$ 69</b>
<b>Fund Net Assets, Beginning of Period</b>	<b>\$ 2,314</b>	<b>\$ 2,245</b>
<b>Fund Net Assets, End of Period</b>	<b>\$ 2,414</b>	<b>\$ 2,314</b>

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, 2017 AND 2016**  
**(IN THOUSANDS)**

	2017	2016
<b>Cash Flows from Operating Activities:</b>		
Receipts from Assessments and service providers	\$ 34,044	\$ 33,973
Cash paid to service providers	\$ (33,826)	\$ (33,826)
Cash paid for administrative costs	<u>\$ (159)</u>	<u>\$ (125)</u>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 59</b>	<b>\$ 22</b>
<b>Cash Flows from Investing Activities:</b>		
Interest Income	<u>25</u>	<u>11</u>
<b>Net Cash Provided by Investing Activities</b>	<b>25</b>	<b>11</b>
<b>Increase in Cash and Cash Equivalents</b>	<u>84</u>	<u>33</u>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<u>2,301</u>	<u>2,268</u>
<b>Cash and Cash Equivalents, End of Period</b>	<u><u>\$ 2,385</u></u>	<u><u>\$ 2,301</u></u>
<b>Reconciliation of Net Cash Provided by Operating Activities:</b>		
Operating Income	\$ 75	\$ 58
Decrease (Increase) in Accounts Receivable	12	(63)
Increase (Decrease) in Accounts Payable	(28)	<u>27</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 59</u></u>	<u><u>\$ 22</u></u>

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

## PENNSYLVANIA UNIVERSAL SERVICE 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 (PAUSF). 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 PAUSF was established to both reduce and restructure access charges and further the opportunity for development of local competition. The PAUSF 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 PAUSF 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 GVNW Consulting, Inc., began administering the fund on July 1, 2017, as their contract to act as Administrator of the Fund was granted by the PPUC on March 23, 2017 through June 30, 2022. Carriers contribute a fixed monthly assessment amount based on company specific revenues. Eligible recipients receive fixed monthly support payments from the PAUSF 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, 2017 and 2016 the PAUSF had accounting transactions in the unrestricted fund net assets only. The PAUSF'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 PAUSF a fixed monthly amount as determined in accordance with PUC regulations. It is the PAUSF's policy to record revenues in the period earned. Received advances or prepayments are not recognized as revenues, but as deferred revenues.

### D. Receivables & 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. Uncollectible contributions of \$0 and \$10 were written off during the periods ended December 31, 2017 and 2016, respectively.

Management has elected to record debts using the direct write-off method. Receivables are written off at the time they are deemed uncollectible. Generally Accepted Accounting Principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have obtained had the allowance method been followed. Management reviews the collectability of accounts receivable on a regular basis based upon an analysis of outstanding receivables, historic collection information and existing economic conditions.

### E. Special Revenue Fund

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

### Note 3 - Cash and Cash Equivalents:

The Fund's cash and cash equivalents include checking, demand deposits with financial institutions. As part of its cash management program, GVNW maintains a Government interest checking account for the PAUSF at a Pennsylvania bank. Interest is credited to the PAUSF when earned. The annual percentage yield earned for the six months ended December 31, 2017 from this account averaged 0.75% and is currently earning 1.00%. The interest rate for the six months ended June 30, 2017 and the year ended December 31, 2016 averaged 0.55% and 0.27%, respectively. Interest earned for the years ended December 31, 2017 and 2016 was \$25 and \$11, respectively.

### Note 4 - 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 GVNW 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 year ended December 31, 2017 and 2016 was 1.83 and 1.74 percent, respectively. The gross assessments totaled \$34,060 and \$34,019 for the years ended December 31, 2017 and 2016, respectively, which included late fees of \$6 and \$3, respectively.

Note 5- Amounts Paid and Due to Service Providers:

Universal Service Support Payments to the qualified recipients are made by GVNW 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 periods ended December 31, 2017 and December 31, 2016, the PAUSF determined that approximately \$33,826 and \$33,826, respectively, in support payments were due to service providers.

Note 6- Administrative Costs:

As stated in the Contract, GVNW 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 fees for the years ended December 31, 2017 and 2016 were \$159 and \$125, respectively. Solix was under contract as the administrator of the PAUSF through June 30, 2017. The administrative costs were approximately as follows:

	<u>2017</u>	<u>2016</u>
Administrative Fees	\$ 129	\$ 102
External Audit Fees	28	23
Banking Fees	2	-
	<hr/>	<hr/>
	<b>\$ 159</b>	<b>\$ 125</b>

Note 7- Income Taxes:

These financial statements present the activities of the PAUSF. The activities of the PAUSF are tax-exempt since the PAUSF 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 8- Concentration of Credit Risk

The Fund maintains a Government Interest Checking Account, collateralized in accordance with the pooling of assets option provided by PA-Act 72, Senate Bill 383 of 1971. FDIC will insure account balances up to \$250,000. Account balances in excess of \$250,000 will be protected by pledged government securities that will be equal to 102% of the total amount on deposit. Specific asset pledges will be provided in required instances along with a pool of investments that will serve as collateral. All securities are held by an independent third party custodian bank, either the Bank of New York Mellon or US Bank.

Custodial Credit Risk - Deposits in financial institutions, reported as components of cash, had a bank balance of \$2,385 and \$2,301 at December 31, 2017 and 2016, 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 - GVNW Consulting, Inc. maintains an interest/checking account with Fulton Bank for the purpose of collecting and disbursing funds for the PA USF and receiving interest on the fund balance. GVNW does not direct investments and therefore has not created an investment policy for the PA USF monies.

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.

#### Note 9 - Subsequent Events

Management has evaluated subsequent events occurring after the balance sheet date through the date of June 27, 2018, 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**

To the Pennsylvania Public Utility Commission  
and GVNW

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 special revenue fund of the Pennsylvania Universal Service Fund, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Pennsylvania Universal Service Fund's basic financial statements, and have issued our report thereon dated June 27, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Pennsylvania Universal Service Fund'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 the Pennsylvania Universal Service Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pennsylvania Universal Service Fund'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 Pennsylvania Universal Service Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and GVNW procedures, 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

June 27, 2018

**PENNSYLVANIA UNIVERSAL SERVICE FUND**

**Required Communications and  
Management Letter**

**For the Year Ended December 31, 2017**



To the Pennsylvania Public Utility Commission and  
GVNW

We have audited the financial statements of the governmental activities of the Pennsylvania Universal Service Fund (the Fund) for the year ended December 31, 2017. 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 2017. 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 June 27, 2018.

### *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, 2017, 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*

June 27, 2018

Hurlbert CPA, LLC  
Liberty, MO