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November 3, 2004

James J. McNulty
Secretary
Pennsylvania Public Utility Commission
PO Box 3265
Harrisburg, PA 17105-3265

**RE: Pennsylvania Universal Service Fund 1/03 – 12/03 Period Report
Docket No. M-00001337**

Dear Mr. McNulty:

Enclosed for filing in Docket No. M-00001337 is a summary of the activity for the Pennsylvania Universal Service Fund (PUSF) for the 1/03- 12/03 period of operations.

In accordance with the terms of the contract between NECA and the Pennsylvania Public Utility Commission (PPUC), this report details the financial activities of the PUSF for the period ended December 31, 2003 and includes a Balance Sheet, Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows. Also included is a list of recommendations pertaining to the Pennsylvania USF and a revised proposed assessment rate for the 2005 calendar year. The assessment rate has been revised to incorporate additional data provided by Commission staff.

Please contact me if you have any questions regarding the materials.

Sincerely,

Attachments

Cc: PA Office of Consumer Advocate
PA Office of Small Business Advocate
Chief Counsel, PPUC
Director of the Bureau of Fixed Utilities, PPUC
Director of the Bureau of Audits, PPUC
PUSF Participating Carriers

NECA
Pennsylvania Universal Service Fund
August 27, 2004

A. PUSF Financial Activities

As shown in the attached financial statements, the gross PUSF assessments during the 01/03- 12/03 period were \$34.8 million and the gross support disbursements were \$33.5million. The corresponding fund balance as of 12/31/03, after taking into consideration interest earned, late payment charges and administrative expenses paid, was \$2.7 million. Interest earned on the invested fund balance, which is credited to the PUSF, totaled \$38 thousand for the period resulting in an average investment earnings rate of 1.09%.

B. Recommendations for Modification of the PUSF

1) Continue to Utilize an Annual Funding Contingency of 5%

For the past two years, the PPUC has approved an assessment factor that utilized a 5% funding contingency. This has proven to provide sufficient cash flow to ensure that all PUSF support payment are made on schedule.

2) Revise the Monthly PUSF Reporting Package

The current PUSF monthly reporting package does not conform with Generally Accepted Accounting Principals (GAAP). It is a hybrid of cash and accrual accounting. The reporting package was intended to satisfy requests made by numerous parties. An independent third party would find these reports to be difficult to understand. NECA recommends that the reports be revised to more closely conform to GAAP. Specifically we recommend that the reports be revised to represent the accrual method of accounting and include information that can be used to monitor cash flow as well as the fund balance at the end of each month.

C. Proposed Assessment Rate for Calendar Year 2005

In accordance with PPUC's rules for calculating the annual assessment factor, the PUSF assessment rate for 2005 has been calculated at .9909598% (.009909598) of intrastate retail revenues. The assessment calculation is based on data submitted by carriers during the annual data collection process as well as projections of the fund carryover balance and administrative and auditing fees:

- 1) Reported 2002/2003 annual access line growth rate = (1.21%)
- 2) Projected PUSF fund balance as of 12/31/04 = \$2,000,000
- 3) Projected 2005 annual support due to recipient carriers = \$33,565,233
- 4) Projected 2005 annual administration and audit fees = \$195,000
- 5) Projected 2005 allowance for uncollectibles = \$1,578,262
- 6) Projected 2005 total annual fund size = \$33,338,495
[(Line 3 + Line 4 + Line 5 – Line 2)]
- 7) Reported 2003 intrastate retail revenues = \$3,364,263,243
- 8) Recommended 2005 Assessment Rate = $\$33,338,495 / \$3,364,263,243 =$ **.009909598**
[(Line 6 / Line 7)]