



Brian Kickey
Manager
State Program Management

October 29, 2008

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

**RE: Pennsylvania Universal Service Fund 1/07 – 12/07 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 1/07- 12/07 period of operations.

In accordance with the terms of the contract between Solix, Inc. and the Pennsylvania Public Utility Commission (PPUC), this report details the financial activities of the PUSF for the period ending December 31, 2007 and includes a Balance Sheet, Statements of Revenues, Expenses and Changes in Fund Net Assets, and Statements of Cash Flows. Also included is a list of recommendations pertaining to the Pennsylvania USF and the **proposed** assessment rate for the 2009 calendar year.

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

Sincerely,

A handwritten signature in black ink that reads "Brian H. Kickey". The signature is written in a cursive, flowing style.

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

Attachments

Solix, Inc.

Pennsylvania Universal Service Fund

A. PUSF Financial Activities

As shown in the attached financial statements, the gross PUSF assessments during the 01/07-12/07 period were \$33.8 million and the gross support disbursements were \$33.7 million. The corresponding fund balance as of 12/31/07, after taking into consideration interest earned, late payment charges and administrative expenses paid, was \$1.8 million. Interest earned on the invested fund balance, which is credited to the PUSF, totaled \$138 thousand for the period, resulting in an average investment earnings rate of 5.12%.

B. Recommendations for the PUSF

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

For the past three 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 payments are made on schedule.

2) Encourage Annual Payments

Since its inception, most carriers that are required to pay into the PUSF have paid via monthly contributions, regardless of their total annual amount due. As a way to increase operational efficiencies for the carriers as well as the Administrator, Solix, Inc. recommends that the PPUC continues to encourage carriers to pay their annual contribution in a lump sum rather than monthly installments, if economically feasible.

3) Carryover Balance

The fund balance is currently increasing in size on an average of \$1,400 per month, driven primarily by earning an average of \$6,779 per month in interest on the invested fund balance. The fund balance is projected to continue at that monthly amount for the remainder of 2008, resulting in an anticipated year end fund balance of \$2.6 million. Solix believes it would be prudent to utilize a conservative balance of \$1.5 million as of December 31, 2008 for calculation purposes, providing a further cushion for any unforeseen variances.

C. Proposed Assessment Rate for Calendar Year 2009

In accordance with the PAPUC's rules for calculating the annual assessment factor, the PUSF assessment rate for 2009 has been calculated at 1.1094904% (0.011094904) 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 2006/2007 annual access line growth rate = -6.99%; however, there were two carriers with a net increase, therefore raising the total annual support by \$7,767.60.
- 2) Projected PUSF fund balance as of 12/31/08 = \$1,500,000
- 3) Projected 2009 annual support due to recipient carriers = \$33,578,219
- 4) Projected 2009 annual administration and audit fees = \$152,588
- 5) Projected 2009 allowance for uncollectibles = \$1,603,911
- 6) Projected 2009 total annual fund size = \$33,834,719
[(Line 3 + Line 4 + Line 5 - Line 2)]
- 7) Reported 2007 intrastate retail revenues = \$3,049,572,901
- 8) Recommended 2009 Assessment Rate = $\$33,834,719 / \$3,049,572,901 =$
0.011094904 (Line 6 / Line 7)

PENNSYLVANIA UNIVERSAL SERVICE FUND

BALANCE SHEETS

DECEMBER 31, 2007 AND 2006

(IN THOUSANDS)

	2007	2006
ASSETS		
Current Assets:		
Cash and cash investments	\$ 1,784	\$ 1,460
Accounts receivable - assessments -net of allowance of \$76k and \$114k respectively	68	182
Interest receivable	2	4
TOTAL ASSETS	\$ 1,854	\$ 1,646
 LIABILITIES AND FUND NET ASSETS		
Current Liabilities:		
Accounts payable - assessments	\$ 26	\$ 15
Deferred revenue	-	15
Accounts payable and accrued expenses	23	23
Total Current Liabilities	49	53
 Fund Net Assets - Unrestricted	1,805	1,593
 TOTAL LIABILITIES AND FUND NET ASSETS	\$ 1,854	\$ 1,646

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, 2007 AND 2006
(IN THOUSANDS)

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities:		
Receipts from assessments and service providers	\$ 33,899	\$ 33,132
Cash paid to service providers	(33,570)	(33,565)
Cash paid for administrative costs	(145)	(145)
Net Cash (Used in) Operating Activities	<u>184</u>	<u>(578)</u>
Cash Flows from Investing Activities:		
Interest income	<u>140</u>	<u>144</u>
Net Cash Provided by Investing Activities	<u>140</u>	<u>144</u>
Decrease in Cash and Cash Equivalents	324	(434)
Cash and Cash Equivalents, Beginning of Period	<u>1,460</u>	<u>1,894</u>
Cash and Cash Equivalents, End of Period	<u><u>\$ 1,784</u></u>	<u><u>\$ 1,460</u></u>
Reconciliation of Net Cash Used in Operating Activities:		
Operating income (loss)	\$ 74	\$ (430)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable - assessments	114	(134)
Increase (decrease) in accounts payable - assessments	11	(5)
Increase (decrease) in deferred revenue	(15)	(9)
Net Cash Used in Operating Activities	<u><u>\$ 184</u></u>	<u><u>\$ (578)</u></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, 2007 AND 2006
(IN THOUSANDS)

	<u>2007</u>	<u>2006</u>
Operating Revenue:		
Assessments	\$ 33,800	\$ 33,351
Operating Expenses:		
Amounts paid and due to service providers	33,570	33,565
Bad debt expense	11	70
Administrative costs	<u>145</u>	<u>146</u>
Total Operating Expenses	<u>33,726</u>	<u>33,781</u>
Operating Income (Loss)	74	(430)
Non-Operating Income:		
Interest income	<u>138</u>	<u>147</u>
Net Decrease in Unrestricted Fund Net Assets	212	(283)
Fund Net Assets - Unrestricted, Beginning of Period	<u>1,593</u>	<u>1,876</u>
Fund Net Assets - Unrestricted, End of Period	<u>\$ 1,805</u>	<u>\$ 1,593</u>

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