

Pennsylvania Public Utility Commission

Pennsylvania Universal Service Fund
Financial Statements and Required
Supplementary Information

Years Ended December 31, 2022 and 2021
with Independent Auditor's Reports

MaherDuessel

A horizontal bar is positioned below the company name. The left portion of the bar is black, and the right portion is blue, matching the color of the 'D' in the company name.

PENNSYLVANIA UNIVERSAL SERVICE FUND

YEARS ENDED DECEMBER 31, 2022 AND 2021

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Independent Auditor's Report

**Pennsylvania Public
Utility Commission and Rolka Loube, LLC.**

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Pennsylvania Universal Service Fund (Fund), of the Commonwealth of Pennsylvania, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended to present the balance sheets, statements of revenues and expenses and statements of cash flows of the Pennsylvania Universal Service Fund. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Pennsylvania, as of December 31, 2022 and 2021, the changes in its financial position, or where applicable, its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America. Our Opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 23, 2023 on our consideration of the 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 solely 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 effectiveness of the Fund's 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 the Fund's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
May 23, 2023

PENNSYLVANIA UNIVERSAL SERVICE FUND

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Rolka Loube, the Administrator of the Pennsylvania Universal Service Fund (PAUSF), submits this Management Discussion and Analysis of the PAUSF's financial activities during the fiscal years ended December 31, 2022 and 2021. The PAUSF's financial statements, which should be read in conjunction with this Analysis, are included with this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes three sections: (1) Management's Discussion and Analysis; (2) basic financial statements; and (3) required supplementary information. The Management's Discussion and Analysis provides an overview of the PAUSF's financial activities. The basic financial statements include the Balance Sheets, Statements of Revenues and Expenses, and Statements of Cash Flows. Required supplementary information contains required notes to the financial statements and provide more detailed information.

COMPARATIVE CONDENSED FINANCIAL INFORMATION

At December 31	2022	2021
Cash and cash equivalents	\$ 3,175,401	\$ 3,723,223
Account receivable	66,836	130,005
Total Assets	3,242,237	3,853,228
Payable to contributors	4,999	-
Total Liabilities	4,999	-
Fund Net Assets	3,237,238	3,853,228
Total Liabilities and Fund Net Assets	\$ 3,242,237	\$ 3,853,228
Assessments	33,318,406	34,853,294
Total Revenues	33,318,406	34,853,294
Amounts paid and due to service providers	33,840,057	33,829,810
Bad debt expense (recovery)	4,383	11,230
Administrative costs	133,949	180,426
Total Operating Expenses	33,978,389	34,021,466
Operating Income (loss)	(659,983)	831,828
Non-operating revenue		
Interest income	43,993	2,268
Change in Net Position	\$ (615,990)	\$ 834,096

PENNSYLVANIA UNIVERSAL SERVICE FUND

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

ANALYSIS OF OVERALL FINANCIAL POSITION

The PAUSF has experienced and decrease in Net Fund Assets of \$615,990 due, in part, to a decrease in the assessment rate for the fiscal year ended December 31, 2022.

2022 Comparison Budget
(Dollars in Thousands)

	Expected	Actual	Over/Under
Assessments	\$ 33,273	\$ 33,318	\$ 45
Total Revenues	33,273	33,318	45
Amounts paid and due to service providers	33,829	33,840	11
Bad debt expense	1,576	4	(1,572)
Administrative costs	187	134	(53)
Total Operating Expenses	35,592	33,978	(1,614)
Non-operating revenue	(2,319)	(660)	1,659
Other income	-	44	44
Change in Fund Net Assets	\$ (2,319)	\$ (616)	\$ 1,703

ANALYSIS OF VARIANCES IN BUDGET TO ACTUAL AMOUNTS

The PAUSF experienced significant variance between budgeted and actual amounts due to budgeting a large amount of bad debt that did not come to fruition. Bad Debt Expense was budgeted at \$1.6 million, or 5% of the prior year fund size less estimated prior year surplus or added prior year shortfall.

FINANCIAL HIGHLIGHTS

The PAUSF fund net assets December 31, 2022 and 2021 were \$3,242,237 and \$3,853,294, respectively. For fiscal year 2022, PAUSF unrestricted fund net assets decreased from the prior year due to a decrease in the assessment rate.

The PAUSF total assessments for the fiscal years 2022 and 2021 were \$33,318,406 and \$34,853,294, respectively. The PAUSF total amounts paid and due to service providers for fiscal years 2022 and 2021 were \$33,840,057 and \$33,829,810, respectively.

The PAUSF total administrative costs for fiscal years 2022 and 2021 were \$133,949 and \$180,426, respectively. The PAUSF interest income for fiscal years 2022 and 2021 was approximately \$43,993 and \$2,268, respectively.

PENNSYLVANIA UNIVERSAL SERVICE FUND

BALANCE SHEETS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 3,175,401	\$ 3,723,223
Accounts receivable	66,836	130,005
Total Assets	\$ 3,242,237	\$ 3,853,228
Fund Net Assets		
Liabilities:		
Accounts payable	\$ 4,999	\$ -
Total Liabilities	4,999	-
Net Position:		
Unrestricted	3,237,238	3,853,228
Total Liabilities and Net Position	\$ 3,242,237	\$ 3,853,228

The accompanying notes are an integral part of these fund financial statements.

PENNSYLVANIA UNIVERSAL SERVICE FUND

STATEMENTS OF REVENUES AND EXPENSES

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Operating Revenue:		
Assessments	\$ 33,318,406	\$ 34,853,294
Total operating revenue	33,318,406	34,853,294
Operating Expenses:		
Amounts paid and due to service providers	33,840,057	33,829,810
Bad debt expense (recovery)	4,383	11,230
Administrative costs	133,949	180,426
Total operating expenses	33,978,389	34,021,466
Operating Income (loss)	(659,983)	831,828
Non-Operating Income:		
Interest income	43,993	2,268
Total non-operating income	43,993	2,268
Change in Net Position	(615,990)	834,096
Net Position:		
Beginning of year	3,853,228	3,019,132
End of year	\$ 3,237,238	\$ 3,853,228

The accompanying notes are an integral part of these fund financial statements.

PENNSYLVANIA UNIVERSAL SERVICE FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash Flows from Operating Activities:		
Receipts from assessments and service providers	\$ 30,379,492	\$ 31,392,855
Cash paid to service providers	(30,837,358)	(30,405,661)
Cash paid for administrative costs	(133,949)	(180,426)
Net cash provided by (used in) operating activities	(591,815)	806,768
Cash Flows from Investing Activities:		
Interest income	43,993	2,268
Net cash provided by investing activities	43,993	2,268
Net Increase (Decrease) in Cash	(547,822)	809,036
Cash:		
Beginning of year	3,723,223	2,914,187
End of year	<u>\$ 3,175,401</u>	<u>\$ 3,723,223</u>
Reconciliation of Net Cash Provided (Used In) by Operating Activities:		
Operating Income	\$ (659,983)	\$ 831,828
Decrease (Increase) in accounts receivable	63,169	(25,060)
Increase (Decrease) in accounts payable	4,999	-
Net cash provided by (used in) operating activities	<u>\$ (591,815)</u>	<u>\$ 806,768</u>

The accompanying notes are an integral part of these fund financial statements.

PENNSYLVANIA UNIVERSAL SERVICE FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

1. Organization

On September 30, 1999, the Pennsylvania Public Utility Commission (Commission) 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 §§63.161-63.171, Docket No. L-00000148, (1/27/00), to create the Pennsylvania Universal Service Fund (Fund). In addition, the 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 Fund was established to both reduce and restructure access charges and further the opportunity for development of local competition. The Fund 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 Fund is considered a single enterprise 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.

The Fund 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 Vantage Point Consulting, Inc., whose contract to act as Administrator of the Fund was granted by the Fund on March 23, 2017 through June 30, 2022. Effective July 1, 2022, a new contract was signed by Rolka Loube Associates to act as Administrator of the Fund through June 30, 2027. Carriers contribute a fixed monthly assessment amount based on company specific revenues. Eligible recipients receive fixed monthly support payments from the Fund as approved by the Commission.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are reported using the accrual basis of accounting and accounts for its activities as an enterprise fund, a proprietary type. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered primarily through user charges.

PENNSYLVANIA UNIVERSAL SERVICE FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal, ongoing operations. The principal operating revenues of the Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting these classification are reported as nonoperating revenues and expenses.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivables and Allowance for Doubtful Accounts

Accounts receivables are stated as outstanding balances. 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 thirty (30) day grace period are assessed a late payment charge of 18% per annum, adjusted to a daily percent.

If collection becomes doubtful, an allowance for doubtful accounts will be established, and accounts will be charged to income when that determination is made by management. As of December 31, 2022 and 2021, the Commission considers all accounts receivable balances collectible.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from primary activities. For the Commission, these revenues are assessments of telecommunications companies doing business in the Commonwealth of Pennsylvania as determined in accordance with

PENNSYLVANIA UNIVERSAL SERVICE FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

PUC regulations. It is the Fund's policy to record revenues in the period the assessment is assessed.

Net Position

Net position is classified in the following category:

Unrestricted net position consists of amounts that are not restricted for any project or other purpose and are available for Fund operations.

When restricted and unrestricted resources are available for its use, it is the Fund's policy to use unrestricted resources first, then restricted resources as they are needed.

Pending Changes in Accounting Principles

Government Accounting Standards Board (GASB) has issued statements that will become effective in future years including 96 (Subscription-Based Information Technology Arrangements), 99 (Omnibus 2022), and 100 (Accounting Changes and Error Corrections). Management has not yet determined the impact of these statements on the financial statements.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

3. Cash and Cash Equivalents

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Fund does not have a deposit policy for custodial credit risk. At December 31, 2022 and 2021, the book balance of the Fund's deposits was \$3,175,401 and \$3,723,223 and the bank balance was \$3,175,401 and \$3,723,223, respectively. Of the bank balance, \$250,000 was covered by federal depository insurance as of December 31, 2022 and 2021 and \$2,925,401 and \$3,473,223 was collateralized under Act 72 of the 1971 session of the Pennsylvania General Assembly for the protection of public depositors for the years ending December 31, 2022 and 2021.

PENNSYLVANIA UNIVERSAL SERVICE FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

4. Allowance for Doubtful Accounts

Allowance for doubtful accounts amounted to \$0 and \$0 for the years ended December 31, 2022 and 2021 to provide for anticipated uncollectible amounts from certain carriers. Uncollectible assessments of \$4,383 and \$11,230 were written off during the periods ended December 31, 2022 and 2021, respectively.

5. Assessments

Identified carriers that are operating in the Commonwealth of Pennsylvania, excluding wireless service providers, provide assessments to the Fund. In addition, the Commission notifies Rolka Loube LLC. 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, 2022 and 2021 was 2.13% and 2.17%, respectively. The gross assessments totaled \$33,318,406 and \$34,853,294 for the years ended December 31, 2022 and 2021, respectively, which included late fees of \$15,168 and \$8,408, respectively.

6. Amounts Paid and Due to Service Providers

Universal Service Support Payments to the qualified recipients are made by Rolka Loube LLC. as directed by the Commission. 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, 2022 and 2021, the Fund paid \$33,840,057 and \$33,829,810 respectively, in support payments that were due to service providers.

PENNSYLVANIA UNIVERSAL SERVICE FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

7. Administrative Costs

The administrative costs for the years ending December 31, 2022 and 2021 are as follows:

	2022	2021
Administrative fees	\$ 98,000	\$ 101,125
External audit fees	21,568	19,000
Carrier review fees	10,933	54,667
Banking fees	3,448	5,634
	<u>\$ 133,949</u>	<u>\$ 180,426</u>

8. Income Taxes

These financial statements present the activities of the Fund. The activities of the Fund are tax exempt since the fund is a single enterprise 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.

Pennsylvania Public Utility Commission

Pennsylvania Universal Service Fund

Independent Auditor's Report
in Accordance with
Government Auditing Standards

Years Ended December 31, 2022 and 2021

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Fund Financial Statements Performed in Accordance with Government Auditing Standards

**Pennsylvania Universal Public
Utility Commission and Rolka Loube, LLC.**

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 enterprise fund of the Pennsylvania Universal Service Fund, as of and for the years ended December 31, 2022 and 2021, and the related notes to the fund financial statements, which collectively comprise the Pennsylvania Universal Service Fund's basic financial statements, and have issued our report thereon dated May 23, 2023.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Pennsylvania Universal Service Fund
(a special revenue fund of the Commonwealth
of Pennsylvania administered by Rolka Loube LLC.)
Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

Report on 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, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

Maher Duessel

Harrisburg, Pennsylvania
May 23, 2023