

**PENNSYLVANIA UNIVERSAL SERVICE FUND
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND YEAR ENDED
DECEMBER 31, 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 for funds under management by Solix, Inc. during the six months ended June 30, 2017 and the year ended December 31, 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 more detailed data.

COMPARATIVE CONDENSED FINANCIAL INFORMATION

	(In Thousands)	
	2017	2016
Cash and Cash Equivalents	\$ 84	\$ 2,301
Accounts Receivable	24	66
Total Assets	<u>\$ 108</u>	<u>\$ 2,367</u>
Payable to contributors	\$ 1	\$ 1
Deferred Revenue	87	27
Accounts Payable and Accrued Expenses	-	25
Total Liabilities	<u>88</u>	<u>53</u>
Fund Net Assets, Restricted	20	2,314
Total Liabilities and Fund Net Assets	<u>\$ 108</u>	<u>\$ 2,367</u>
Assessments	<u>\$ 17,384</u>	<u>\$ 34,019</u>
Total Revenues	17,384	34,019
Amounts Paid and Due to Service Providers	16,913	33,826
Bad debt expense	-	10
Administrative Costs	65	125
Total Operating Expenses	<u>16,978</u>	<u>33,961</u>
Non-Operating Revenue	10	11
Misc. expense – transfer to new admin	<u>(2,710)</u>	<u></u>
Change in Fund Net Assets	<u>\$ (2,294)</u>	<u>\$ 69</u>

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FINANCIAL HIGHLIGHTS

The PAUSF restricted fund net assets under management by Solix, Inc. as of June 30, 2017 and December 31, 2016 were approximately \$0.2 million and \$2.3 million, respectively. The PAUSF total assessments for the six months ended June 30, 2017 and the fiscal year ended December 31, 2016 were approximately \$17.384 million and \$34.019 million, respectively. The PAUSF total amounts paid and due to service providers from January to June 2017 and for the fiscal year 2016 were approximately \$16.913 million and \$33.826 million, respectively. The PAUSF total administrative costs for the six months ended June 30, 2017 and the fiscal year ended December 31, 2016 were approximately \$65 thousand and \$125 thousand, respectively. The PAUSF interest income for the six months ended 2017 and the fiscal year ended 2016 was approximately \$10 thousand and \$11 thousand, respectively.

As of June 30, 2017, the PAUSF under administration by Solix Inc. had net payables of approximately \$64 thousand, comprised of accounts receivable of \$24 thousand, deferred revenue of \$87 thousand, payable to contributors of \$1 thousand. This compares to a net payable of approximately \$13 thousand as of December 31, 2016, which consisted primarily of accounts receivable of \$66 thousand, deferred revenue of \$27 thousand, payable to contributors of \$1 thousand, and accrued expenses of \$25 thousand. As of June 30, 2017, approximately \$2.710 million was transferred to the new administrator.

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PENNSYLVANIA UNIVERSAL SERVICE FUND
BALANCE SHEETS UNDER SOLIX ADMINISTRATION
AS OF JUNE 30, 2017 AND DECEMBER 31, 2016
(IN THOUSANDS)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 84	\$ 2,301
Accounts receivable - assessments	24	66
TOTAL ASSETS	<u>\$ 108</u>	<u>\$ 2,367</u>
 LIABILITIES AND FUND NET ASSETS		
Current Liabilities:		
Payable to contributors	\$ 1	\$ 1
Deferred revenue	87	27
Accounts payable and accrued expenses	-	25
TOTAL CURRENT LIABILITIES	<u>88</u>	<u>53</u>
 Fund Net Assets - Unrestricted	<u>20</u>	<u>2,314</u>
 TOTAL LIABILITIES AND FUND NET ASSETS	<u>\$ 108</u>	<u>\$ 2,367</u>

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

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PENNSYLVANIA UNIVERSAL SERVICE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND THE YEAR ENDED DECEMBER 31, 2016
(IN THOUSANDS)

	<u>2017</u>	<u>2016</u>
Operating Revenue:		
Assessments	\$ 17,384	\$ 34,019
Operating Expenses:		
Amounts paid and due to service providers	16,913	33,826
Bad debt expense	-	10
Administrative costs	<u>65</u>	<u>125</u>
Total Operating Expenses	<u>16,978</u>	<u>33,961</u>
Operating Income	406	58
Non-Operating Income:		
Interest income	10	11
Miscellaneous Expense - transfer to new administrator	<u>(2,710)</u>	<u>-</u>
Total Non-Operating Income (Expense)	(2,700)	11
Net Increase (Decrease) in Unrestricted Fund Net Assets	(2,294)	69
Fund Net Assets - Unrestricted, Beginning of Period	<u>2,314</u>	<u>2,245</u>
Fund Net Assets - Unrestricted, End of Period	<u>\$ 20</u>	<u>\$ 2,314</u>

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PENNSYLVANIA UNIVERSAL SERVICE FUND

STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND THE YEAR ENDED DECEMBER 31, 2016

(IN THOUSANDS)

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Receipts from assessments and service providers	\$ 17,486	\$ 33,973
Cash paid to service providers	(16,913)	(33,826)
Cash paid for administrative costs	(90)	(125)
Net Cash Provided by Operating Activities	<u>483</u>	<u>22</u>
Cash Flows from Investing Activities:		
Interest income	10	11
Cash transfer to new administrator	(2,710)	-
Net Cash Provided by Investing Activities	<u>(2,700)</u>	<u>11</u>
Decrease/Increase in Cash and Cash Equivalents	(2,217)	33
Cash and Cash Equivalents, Beginning of Period	<u>2,301</u>	<u>2,268</u>
Cash and Cash Equivalents, End of Period	<u>\$ 84</u>	<u>\$ 2,301</u>
Reconciliation of Net Cash Provided by Operating Activities:		
Operating income	\$ 406	\$ 58
Changes in assets and liabilities:		
Decrease in accounts receivable - assessments	42	(63)
Increase (Decrease) in payable to contributors	-	1
Increase in deferred revenues	60	26
Increase (decrease) in accounts payable and accrued expenses	(25)	-
Net Cash Provided by Operating Activities	<u>\$ 483</u>	<u>\$ 22</u>

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

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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 six months ended June 30, 2017 and the fiscal year ended December 31, 2016 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.

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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 six months ended June 30, 2017 and the year ended December 31, 2016 averaged 0.55% and 0.27%, respectively.

Note 4 – Allowance for Doubtful Accounts:

Allowance for doubtful accounts amounted to \$0 and \$0 at June 30, 2017, and December 31, 2016 to provide for anticipated uncollectible amounts from certain carriers. Uncollectible contributions of \$0 and \$9 were written off during the periods ended June 30, 2017 and December 31, 2016.

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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 six months June 30, 2017 and year December 31, 2016 was 1.83 and 1.74 percent, respectively. The gross assessments totaled \$17,384 and \$34,019 for the six months ended June 30, 2017 and the year ended December 31, 2016, 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 periods ended June 30, 2017 and December 31, 2016, the PUSF determined that approximately \$16,913 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 periods ended June 30, 2017, and December 31, 2016, was \$68 and \$102, respectively. Solix is under contract as the administrator of the PUSF through June 30, 2017.

The administrative costs were approximately as follows:

	<u>2017</u>	<u>2016</u>
Solix administrative fees	\$ 52	\$ 102
External audit fees	(3)	23
New administrator fees	16	
	<u>\$ 65</u>	<u>\$ 125</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

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