Assessment Of The Vermont Universal Service Fund

AUDIT REPORT OF

QSI consulting, inc.

May 2013

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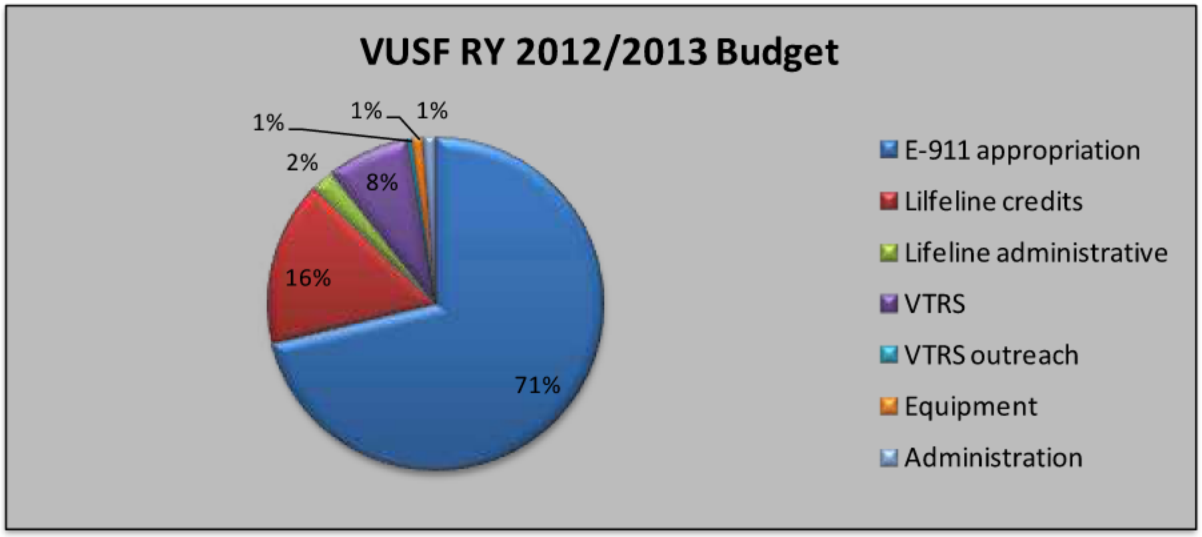
Executive Summary

This report describes QSI Consulting, Inc.'s ("QSI") study of the Vermont Universal Service Fund ("VUSF" or "Fund"), which has been conducted consistent with the requirements of 30 V.S.A. §7515(b)(8). This study examined: (1) contributions made to the Fund in terms of the categories of telecommunications service providers ("TSPs") covered; (2) specific services assessed the VUSF surcharge; and (3) disbursements made from the Fund. Additionally, QSI needed to prepare a report to clearly explain how the Fund works, and provide recommendations to the Public Service Department ("PSD") on how to ensure future reporting on the VUSF could be clearly understood by the legislature and other interested parties. Therefore, to prepare such a report and recommendations, the study also includes: (4) a review of the relationships and contributions made by Comcast corporate affiliates in order to ascertain the extent to which Comcast has collected and remitted VUSF surcharges based on retail or wholesale revenues; (5) an examination of the annual VUSF budget and management process, including a comparison of actual results to annual budgets, which required outreach and data requests to attempt to understand the existing processes; (6) analysis and comparison of carrier contributions that would normally be performed under the standalone carrier audits contemplated by 30 V.S.A. §7524; and (7) an examination of the percentage of all VUSF receipts that are attributable to wireless, or commercial mobile radio service ("CMRS") carriers, including prepaid CMRS carriers.

A. Vermont Universal Service Fund

The VUSF is funded by a charge applied to all retail telecommunications services provided in the state. The Fund is established to support the programs as shown in the chart below.

Chart 1: VUSF 2012/2013 Rate Year Budget Expenditures



30 V.S.A. §7523 directs the Board to set the assessment rate each year to ensure that sufficient income is generated to fund these programs. The VUSF surcharge that appears on retail customers' monthly invoices is calculated as a prescribed percentage of the total charges for retail telecommunications services purchased by the customer. This percentage (or VUSF assessment rate) is capped by law at 2%.[1] Given the current telecommunications services revenue base of approximately $350 million, this cap equates to maximum VUSF assessment revenue of approximately $7 million, net of wholesale performance penalty payments made by FairPoint Communications ("FairPoint"). In setting the rate, the Public Service Board ("PSB") first identifies the budgets for these programs. It then aggregates these into a total and, after accounting for the remaining Fund balance, determines the funding requirement for the next year. The PSB then makes a projection about the likely value of total services that will be subject to the VUSF surcharge. Finally, the PSB sets the VUSF assessment rate such that the required revenue will likely be generated in the following year to fund all of the expenses identified in the budget.

B. VUSF Operations

While the PSB sets the budget and is ultimately responsible for the Fund, the day-to-day operations of the Fund are managed by a Fiscal Agent that acts under contract with the PSB. The Fiscal Agent assists the PSB to develop the Fund budget through forecasts of Fund balances and analysis of carrier revenue trends. It is the primary contact for TSPs, which submit reports and contributions to the Fiscal Agent. The Fiscal Agent also disburses monies from the Fund as directed by the budget approved by the PSB. The PSB-approved budget is based on a rate year ("RY") calendar (September 1st - August 31st) to allow carriers 45 days to change the VUSF assessment rate in their billing systems following the July 15th approval date of the VUSF surcharge for the upcoming year. However, the Fiscal Agent maintains the VUSF books on a fiscal year ("FY") calendar (July 1st - June 30th) consistent with the basis used by other Vermont agencies. Section 2.B.2 discusses the impact of having two different calendar bases on evaluating actual performance to approved budget.

C. VUSF Revenue, Lifeline Credits & Expenses

The revenue base – that is, the total value of telecommunications services subject to the charge – is dynamic and constantly changing. Each year the PSB makes an estimate about what the revenue base will be in the following year before it sets the surcharge rate. Since the surcharge is based on a projection, the amount of revenue projected in the budget will never exactly equate to the actual revenue generated. Each year the PSB issues an Order that lays out the budget for the following year as well as the projected revenue and resulting VUSF assessment rate. The Fiscal Agent generates monthly performance reports showing the actual activities of the Fund,

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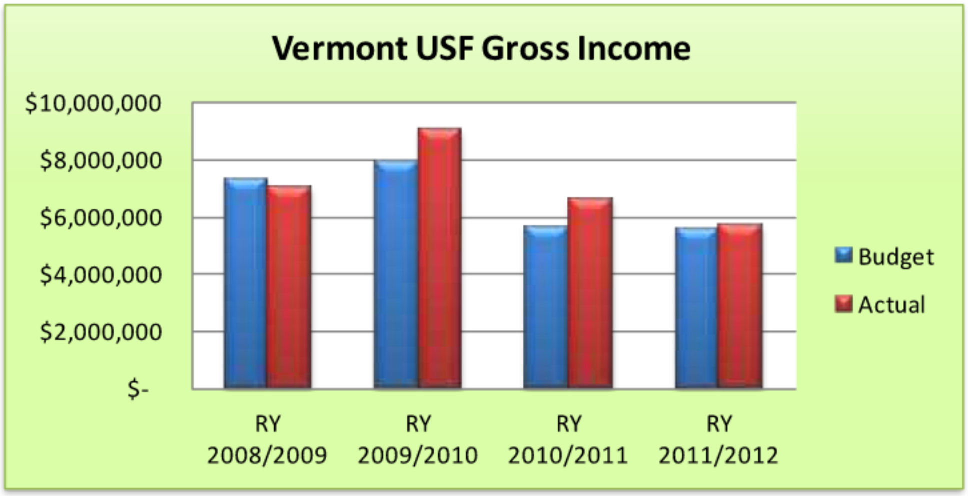
[1] 30 V.S.A. §7523(a) states: "Annually, after considering the probable expenditures for programs funded pursuant to this chapter, the probable service revenues of the industry and seeking recommendations from the department, the public service board shall establish the rate of charge to apply during the 12 months beginning on the following September 1. However, the rate so established shall not at any time exceed two percent of all retail telecommunications service. The board's decision shall be entered and announced each year before July 15…" The VUSF assessment rate ordered by the PSB over time is shown in Appendix A.

including revenues and expenses. The chart below shows a comparison of the projected revenue in the PSB approved budget with the actual revenue generated for the last four rate years.

Chart 2: VUSF Gross Income (RY 2008/2009 through RY 2011/2012)



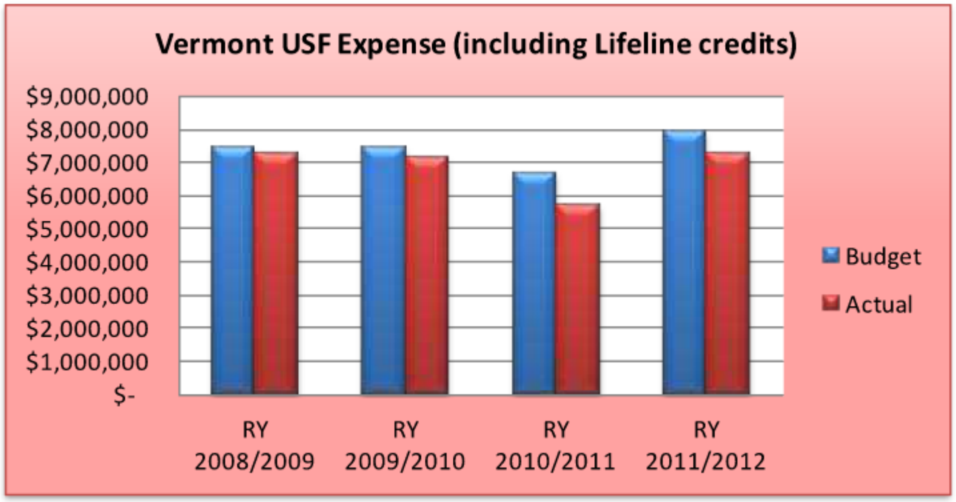
Actual VUSF income exceeded the budget in the last three years primarily due to penalty payments made by FairPoint under the Mode of Entry portion of its Performance Assurance Plan ("PAP"). In fact, VUSF income in RY 2010/2011 and RY 2011/2012 would have been substantially less than forecasted revenue without the FairPoint PAP payments. These payments were $933,521 in RY 2009/2010, $1,701,836 in RY 2010/2011, and $469,139 in RY 2011/2012 per VUSF financial records. Such payments cannot be included in the budget due to uncertainty over the amount and timing of the payments. There is a possibility that these PAP payments, which have enabled actual income to meet the budgeted income, may no longer exist in the future. The following table breaks down revenue received by source for each year.

Table 1: VUSF Income by Source

BREAKDOWN OF ACTUAL INCOME BY SOURCE				
Rate Year	RY 2008/2009	RY 2009/2010	RY 2010/2011	RY 2011/2012
Carrier Assessments	99.68%	87.96%	71.65%	90.71%
FairPoint PAP Payments	0.00%	12.02%	28.27%	9.27%
Interest	0.09%	0.00%	0.01%	0.01%
Miscellaneous	0.23%	0.01%	0.07%	0.01%
	100.00%	100.00%	100.00%	100.00%

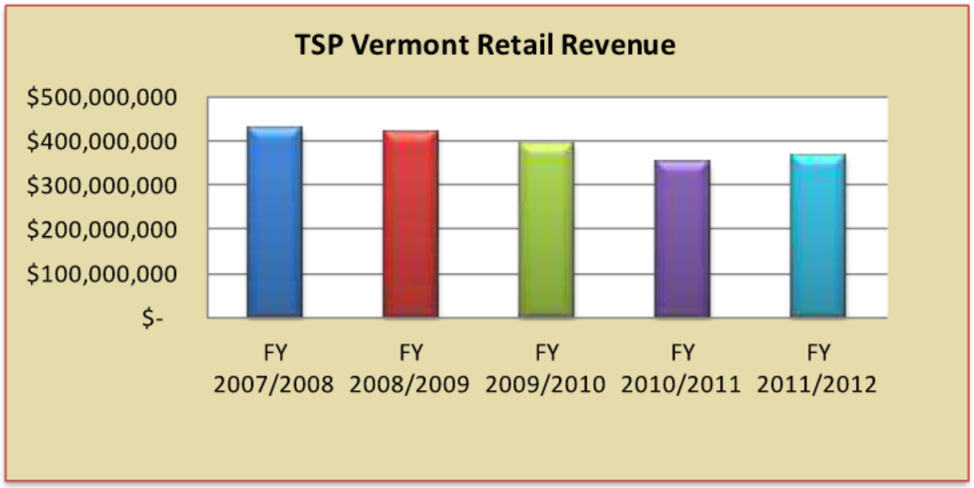
The chart below relates how closely disbursements from the Fund have compared to the budgeted amounts for the last four rate years.

Chart 3: VUSF Expenses (RY 2008/2009 through RY 2011/2012)



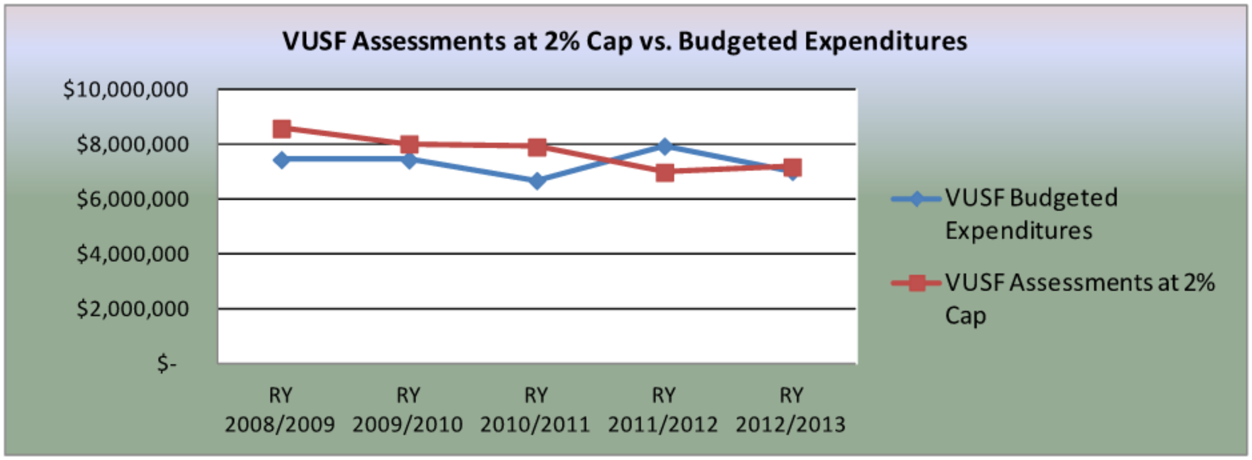
The VUSF assessment rate is capped at 2%. Historically the revenue base has been declining as depicted in the excerpt below from the Fiscal Agent's FY 2012/2013 Revenue Forecast. Services subject to the charge have historically been approximately $400 million. The chart below relates the decline of that revenue over the last 5 years.

Chart 4: Carrier Vermont Retail Revenues (FY 2007/2008 - FY 2011/2012)



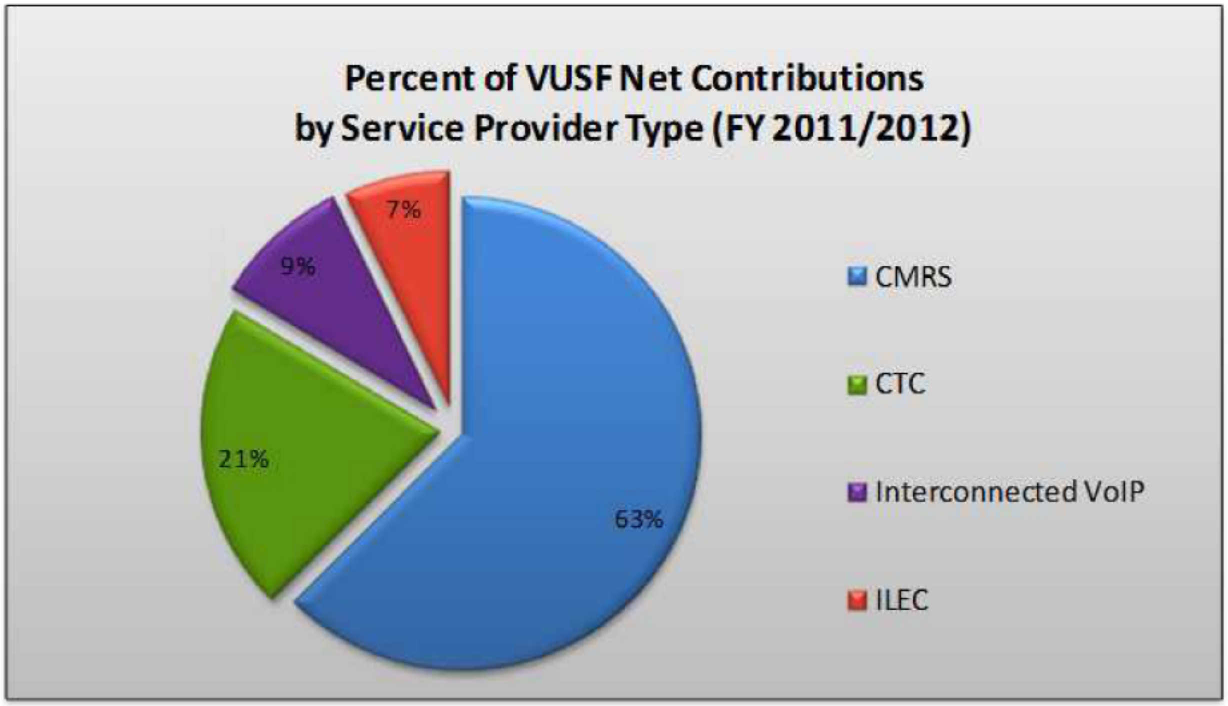
The chart below relates the annual budget approved by the PSB along with the maximum that could have been collected for RY 2008/2009 through RY 2011/2012 and what could be collected in the current rate year if the charge had been set at 2%.

Chart 5: Assessments at 2% VUSF surcharge Cap vs. Budgeted Disbursements



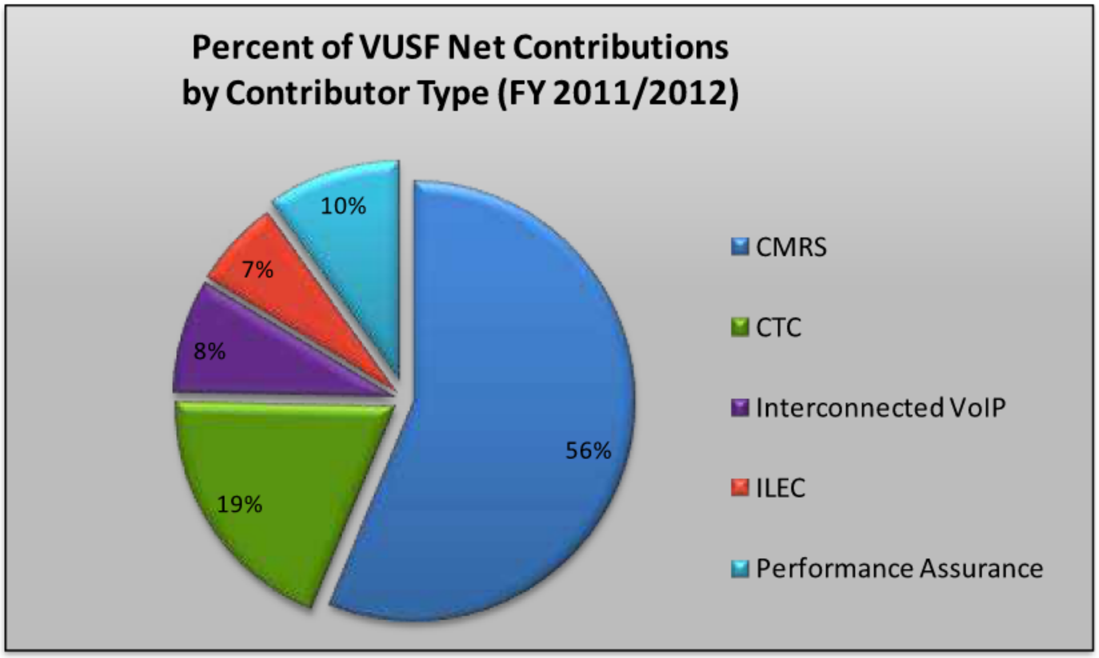
The VUSF surcharge is applicable to all retail telecommunications services provided in the state. The table below demonstrates the percentage of contributions from various types of TSPs for FY 2011/2012 net of credits taken for Lifeline customers and administration expenses. These contributions exclude FairPoint PAP payments. The fiscal year basis was used since the data is from the Fiscal Agent's remittance records by carrier, which is maintained on a fiscal year basis.

Chart 6: VUSF Net Contributions by Service Provider Type (FY 2011/2012)



Net contributions are largely attributable to the customers of CMRS carriers, and competitive telecommunications carriers (or “CTCs”), who contributed 84% of the combined end user assessments as shown in the chart above.[2] If FairPoint PAP Payments are included, the distribution of net contributions by contributor type during FY 2011/2012 was as follows:

Chart 7: VUSF Net Contributions by Contributor Type (FY 2011/2012)



[2] Per the FCC's rules at 47 C.F.R. § 9.3, Interconnected Voice over Internet Protocol (VoIP) service is a service that: (1) enables real-time, two-way voice communications; (2) requires a broadband connection from the user's location; (3) requires Internet protocol-compatible customer premises equipment (CPE); and (4) permits users generally to receive calls that originate on the public switched telephone network and to terminate calls to the public switched telephone network.

D. Findings and Recommendations

This report contains 13 findings in total. Six of the findings are focused on administrative issues such as the reporting of VUSF financial results and the budgeting process analyzed in Section 2 of the report. Four of the findings are focused on the process of collecting VUSF surcharges from retail customers in Section 3 of the report. The last three findings are focused on the process of carriers remitting VUSF surcharges to the Fiscal Agent in Section 4 of the report. QSI had no findings on the VUSF disbursement process analyzed in Section 5 of the report. The following table summarizes QSI's Findings and Recommendations.

Table 2: Summary of Findings and Recommendations

FINDING	RECOMMENDATION
SECTION 2: FISCAL AGENT ADMINISTRATION	
Finding No. 1: The primary obstacle to comparing actual VUSF results to approved annual budgets relates to timing differences between a "rate year" and "fiscal year."	Add two columns to the monthly Fiscal Agent Fund Performance Report and explicitly calculate (1) year-to-date actual results on a rate year basis and (2) projected year-to-date results on a rate year basis. Include comments explaining the cause of the variances between actual results and budget.
Finding No. 2: Fund Performance Report distribution is limited to the PSB and the PSD, which makes evaluation of fund performance difficult.	The Fiscal Agent Fund Performance Report should be posted on a publicly accessible website each month to the extent practicable. If not publicly posted, Fund Performance Reports should be distributed to key decision makers.
Finding No. 3: QSI was unable to replicate the calculation of the Projected Fiscal YTD receipts and disbursements in the Fund Performance Reports using amounts in the PSB-approved VUSF budgets.	The Fiscal Agent should ensure the VUSF database is calculating amounts in the Projected Fiscal YTD column correctly. Explain the reason for any differences from approved budget.
Finding No. 4: The beginning balance as of September 1st used within the PSB-approved VUSF budget did not tie back to actual VUSF fund balances in any of the four years examined. This is due to the point in time at which budgets are prepared for PSB approval. The budget is completed by late June of each year using the Fiscal Agent's forecast of current year results based on eight or nine months of actual results.	The PSB-approved budgets should be trued-up with the actual beginning balance of the VUSF once financial results for the month of August are known. The Fiscal Agent should reconcile the actual VUSF balance on September 1 to the projected balance in order to (1) identify the cause of the variance between budget and actual results and (2) to improve the forecasting process of the beginning balance in the next year.

FINDING	RECOMMENDATION
Finding No. 5: The annual VUSF budget is prepared in a manner that ignores patterns of seasonality in carrier revenue, fluctuations in carrier remittances to the VUSF, and the cash flow timing of changes made to the VUSF assessment rate and certain disbursements.	Patterns observed in prior year actual results tracked by the Fiscal Agent should be considered in the development of new budgets each year, along with known and measurable changes expected during the upcoming year. The budget should reflect the one-month lag in receipts after the new VUSF rate becomes effective in September.
Finding No. 6: Projected interest income has been significantly overstated each year since 2008. Actual interest income has been less than $500 per year in the last three years.	The budget worksheet prepared by the PSB Utilities Analyst ("Utilities Analyst") should be adjusted to assume zero interest income until the 4-week Treasury bill rates increase.
SECTION 3: COLLECTIONS FROM CUSTOMERS	
Finding No. 7: Some companies that are actively providing telecommunications services in Vermont are not collecting VUSF surcharges to remit to the Fiscal Agent. The financial impact of this issue on the Fund is likely small because the customer base, and therefore the assessable revenue, of these carriers is relatively small.	All carriers that file annual reports with the PSD should be sent a reminder of their obligation to participate in the VUSF program, and asked to confirm that they do or provide an explanation why they do not.
Finding No. 8: There is a significant degree of inconsistency among the TSPs in terms of the services excluded from the VUSF surcharge, particularly where statutory interpretation creates possible "gray areas." Inconsistencies typically impact data and Internet services. Certain sampled TSPs do not assess VUSF surcharges on services that are clearly assessable pursuant to statute.	A legal review of "gray areas" (such as data and Internet) services should be conducted to clearly establish which services are and are not assessable for VUSF purposes. This would not only provide clarity and may increase VUSF revenues. Carriers who are known to be incorrectly assessing VUSF surcharges should be required to rectify the situation.

FINDING	RECOMMENDATION
Finding No. 9: (1) Certain TSPs utilize allocation percentages to divide bundled service offerings revenue and discounts between assessable and non-assessable services. These allocation percentages have a direct impact on the VUSF surcharges assessed to customers, and neither the amount of the percentages nor the supporting documentation or logic underlying those percentages has been reviewed by an independent party. (2) There is some uncertainty as to whether prepaid CMRS providers should be making remittances to the VUSF. (3) Not all TSPs currently use one of the approved line item labels found in PSB Interpretation §405(A) for the VUSF surcharge; however, all line item labels used clearly describe the line item for what it is – a state VUSF surcharge. (4) All dominant carriers included in the sample have tariffs on file that describe the VUSF. (5) Not all TSPs provide an annual explanation of how the VUSF surcharge is calculated at least once per year as discussed in §405(C) of the PSB's 1994 interpretation.	QSI recommends no action be taken at this time regarding the TSP-derived allocation percentages. First, not all TSPs utilize this approach, so it is not a widespread issue. Second, this issue may be largely moot depending on the additional clarification on excluded services discussed under Finding 8. Clarification of V.S.A. §7501(b)(5)(B)(vi) is needed such that prepaid CMRS providers know for certain whether they are obligated to participate in the VUSF or whether they are exempt. A clarification indicating that prepaid CMRS providers must contribute would likely increase the Fund's revenues, but a clarification indicating they are exempt would result in a decrease in VUSF revenues as prepaid CMRS providers who currently contribute would likely cease doing so.
Finding No.10: The 2% legislatively-mandated cap on the VUSF assessment rate limits the PSB's flexibility to respond to changing market conditions affecting carrier revenue trends and the potential elimination of the contributions from the FairPoint PAP.	The PSB should work with the legislature to change the cap in the current statute. Alternatively, the PSB could work to expand the base of revenue subject to VUSF assessment. However, this approach is likely to lead to legal challenges by the TSPs.
SECTION 4: REMITTANCES TO FISCAL AGENT	
Finding No.11: The remittance records of the Fiscal Agent and TSPs are extremely accurate.	No action recommended.
Finding No.12: The Fiscal Agent does not currently have access to the data needed to easily determine whether or to what extent TSPs' remittances match VUSF collections from customers.	No action recommended.
Finding No.13: Remittances are made in a timely manner. Exceptions are addressed through late payment charges, which have been a very small percentage of total remittances. No further action needed.	No action recommended.

Section 1: Vermont Universal Service Fund Overview

A. Purpose of Vermont Universal Service Fund

The statewide VUSF was established in 1994 by Vermont State Act No. 197.[3] The VUSF is a statutory mandate of Title 30, Chapter 88 of Vermont Statutes, entitled "*Universal Telecommunications Service.*" The stated purpose of this law is:

> **to create a financial structure** that will allow every Vermont household to obtain basic telecommunications service at an affordable price, and **to finance that structure** with a proportional charge on all telecommunications transactions that interact with the public switched network.[4]

The "financial structure" that was created is the VUSF. The VUSF currently supports the following programs on an ongoing basis: (1) Emergency 9-1-1 ("E911")[5], (2) Vermont Lifeline Program,[6] and (3) Vermont Telecommunications Relay Services ("VTRS")[7]:

1. **Emergency 9-1-1**: E911 is a lifesaving public safety service wherein a caller dials 9-1-1 on a telephone in case of emergency and the system helps identify the 911 caller's address and allows public safety call takers to quickly send emergency services to the caller's location.[8] E911 service is typically provided over a dedicated, redundant E911 network which routs E911 calls to a particular Public Safety Answering Point ("PSAP") – the location at which E911 calls are answered and processed. Each PSAP serves a particular geographic territory.[9] Vermont is divided up into eight PSAP territories.[10]

2. **Vermont Lifeline Program**: ILECs in Vermont participate in the Vermont Lifeline Telephone Service Credit program.[11] Recently, a few CMRS providers were granted Eligible Telecommunication Carrier ("ETC") status, and they are now eligible to participate in the Federal program. The Vermont program provides eligible, low-

3 Vermont State Act (No. 197) of 1994. See also, interpretation of Act No. 197 of 1994, relating to the Vermont Universal Service Fund, by the Vermont Public Service Board ("PSB Interpretation"), 30 V.S.A. § 401.

4 30 V.S.A. §7501(a). (emphasis added)

5 30 V.S.A. §7514.

6 30 V.S.A. §7513.

7 30 V.S.A. §7512.

8 Enhanced 9-1-1 Board's website: http://e911.vermont.gov/residents_visitors/faq

9 Enhanced 9-1-1 Board's website: http://e911.vermont.gov/vermont_911

10 Enhanced 9-1-1 Board's website: http://e911.vermont.gov/sites/e911/files/pdf/E911-PSAP_Config.pdf

11 Telephone companies participating in the Lifeline Telephone Service Credit program are: FairPoint Communications, FairPoint Northern New England, Franklin Telephone, Ludlow TDS, Northfield TDS, Perkinsville TDS, OTT Communications (formerly Shoreham Telephone), Topsham Telephone, Vermont Telephone, and Waitsfield-Champlain Valley Telecom. CMRS providers have recently pursued ETC status in order to provide Federal Lifeline service.

income Vermonters a discount off their monthly telephone bills. Applications for Lifeline eligibility are processed by the Vermont Agency of Human Services and Department of Taxes. Once eligibility is confirmed, the telephone company is notified of the customer's eligibility. The telephone company then applies the Lifeline credit to the telephone account and telephone number submitted on the Lifeline application. Telephone companies are also permitted to be compensated for administration expenses associated with their participation in the Lifeline program.[12]

3. **Vermont Telecommunications Relay Services**: According to the Vermont Relay website, VTRS "is a free service for all Vermonters, connecting deaf, hard-of-hearing, deaf-blind, and speech-disabled individuals with users of regular telephones."[13] VTRS works as follows: either a hearing person or deaf person dials 711 to reach a specially-trained operator, who acts as an impartial, two-way "relay" in the conversation by reading messages typed on the TTY[14] to the hearing person while typing responses on the TTY back to the deaf caller.[15] VTRS service is provided by Sprint under contract with the PSD. In addition to the telecommunications relay service, the VUSF supports VTRS Outreach services and the Vermont Equipment Distribution Program ("VEDP"). VTRS Outreach services are used to inform deaf and hard of hearing (and anyone they need to call) about VTRS.[16] The VEDP provides free TTYs and other adaptive equipment to Vermonters with disabilities that require special equipment to use the telephone.[17]

The ongoing administrative expenses associated with the VUSF are also paid out of the Fund's proceeds. These include: compensation to the Fiscal Agent that manages and administers the Fund, bank fees, and expenses for independent audits of the Fund.

Recently, the VUSF also was used to support a one-year high-cost fund disbursement:

High Cost Fund: Senate Bill ("SB") 180, which was passed in May 2012, established a one-year high-cost program. This law required payments to be made to Vermont's ILECs for purposes of defraying the cost of providing basic local telecommunications services and building/maintaining a network in high-cost areas of the State. More specifically, SB 180 required the Fiscal Agent to distribute to Vermont ILECs any monies in excess of $1 million in the Fund as of September 1,

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12 30 V.S.A. §7513.

13 Vermont Relay website available at: http://www.vermontrelay.com/about1.php

14 "TTY" stands for "text telephone" or "telephone typewriter". A TTY is a device that allows deaf and hearing-impaired users to communicate by typing text on the TTY which is delivered over conventional telephone lines to another TTY on the other end of the call.

15 Vermont Relay website available at: http://www.vermontrelay.com/about1.php

16 The VTRS Outreach program involves presentations, information distribution, workshops and training sessions to inform Vermonters about VTRS. See, Vermont Relay website: http://www.vermontrelay.com/outreach1.php

17 See, Vermont Relay website: http://www.vermontrelay.com/edp1.php . Eligibility requirements and a list of equipment that can be funded are found on the Vermont Relay website. http://www.vermontrelay.com/edp1.php

2012. The Fiscal Agent made this one-time distribution to the ILECs in December 2012, based on each ILEC's proportionate share of total access lines.[18] A permanent high-cost program is provided for in statute, but has not yet been activated in Vermont. The PSD is considering whether to recommend activation.

The VUSF is financed by a surcharge that is assessed, collected and remitted by TSPs offering retail telecommunications services in Vermont.[19] TSPs assess the VUSF surcharge on retail customers' monthly invoices as a separate line item. The VUSF surcharge that appears on retail customers' monthly invoices is calculated as a prescribed percentage of the total charges for retail telecommunications services purchased by the customer. This percentage (or VUSF assessment rate) is capped by law at 2%,[20] and is currently set at 1.82% for the "rate year"[21] September 1, 2012 through August 31, 2013.[22] TSPs collect VUSF surcharges when customers pay their monthly bills. TSPs remit VUSF surcharges to the Fund's Fiscal Agent on a monthly (or, in some instances, quarterly or annual) basis. The Fiscal Agent then distributes VUSF proceeds to the VTRS, VEDP, Lifeline and E911 programs discussed above.

The following diagram depicts the VUSF financial structure and financing mechanism:

[18] In total, approximately $755,000 was disbursed to ILECs after accrued expenses for VTRS and unbilled equipment were deducted.

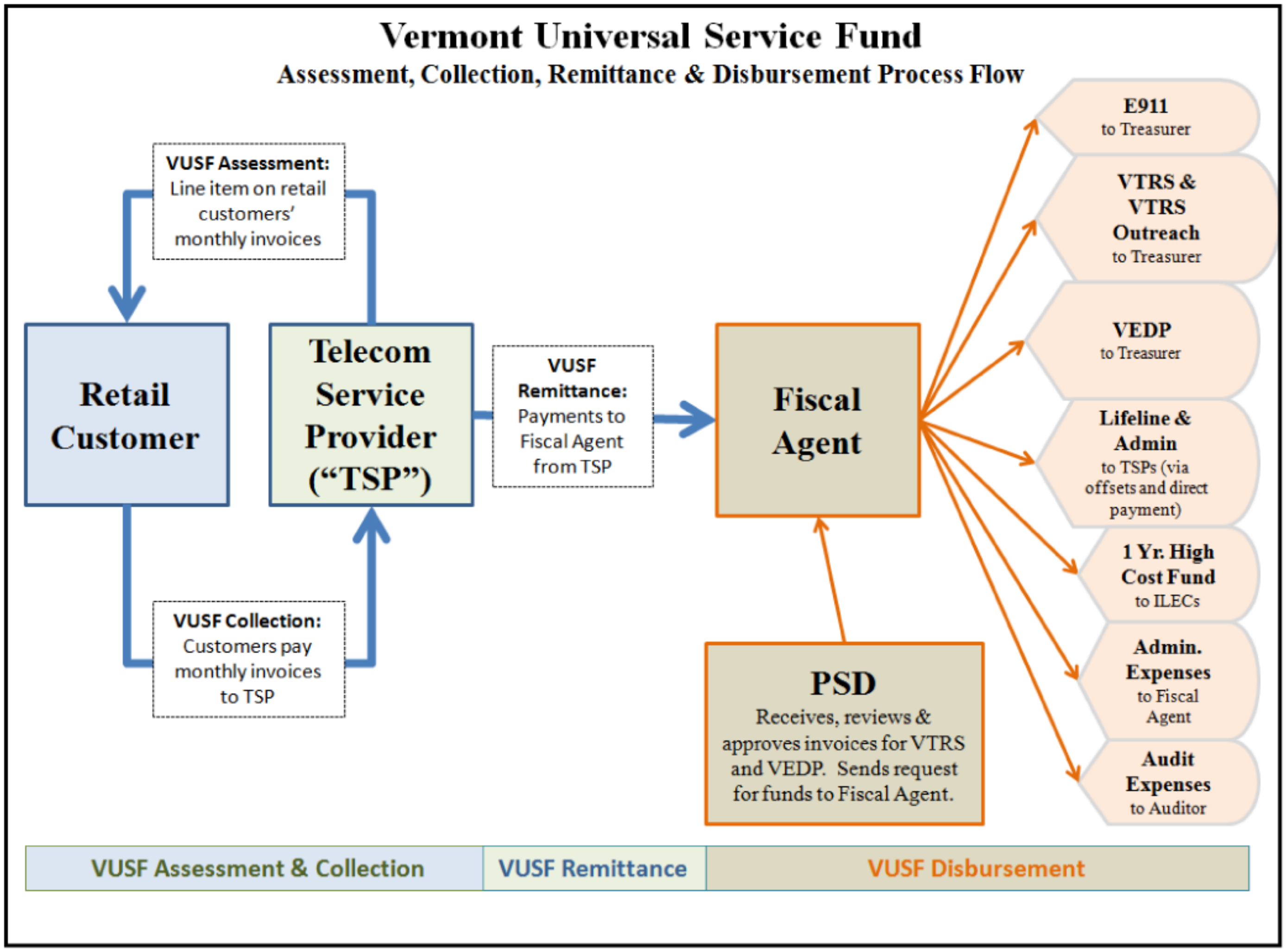
[19] 30 V.S.A. §7521(a) states: "The charge is imposed on the person purchasing the service, but shall be collected by the telecommunications provider."

[20] 30 V.S.A. §7523(a) states: "Annually, after considering the probable expenditures for programs funded pursuant to this chapter, the probable service revenues of the industry and seeking recommendations from the department, the public service board shall establish the rate of charge to apply during the 12 months beginning on the following September 1. However, the rate so established shall not at any time exceed two percent of all retail telecommunications service. The board's decision shall be entered and announced each year before July 15…" The VUSF assessment rate ordered by the PSB over time is shown in Appendix A.

[21] A "rate year" is the time period for which a particular VUSF assessment rate applies. The rate year begins on September 1st and ends on August 31st of the following year. This is different that the "fiscal year" established for the VUSF which begins on July 1st and ends on June 30th of the following year.

[22] By way of example, if the total retail telecommunications charges on a customer's monthly bill amount to $20, then the VUSF surcharge will be $0.36 ($20 x 1.82%) for the current rate year.

Flow Diagram 1: VUSF Assessment, Collection, Remittance & Disbursement Flow



B. Description of Study

QSI was selected by the PSD to perform a study of the VUSF according to the following requirements of 30 V.S.A. §7515(b)(8):

> an audit of the universal service fund to examine, among other things, the contributions made to the fund in terms of the categories of telecommunications service providers covered as well as the specific services charged. In addition, the audit shall assess the disbursements made from the fund.

The contract approving the study established the following tasks:

1. Request information from Vermont ILECs and major VUSF contributors regarding their services subject to VUSF as well as contributions to and disbursements from the VUSF.

2. Request information from the VUSF administrator regarding contributions to and disbursements from the VUSF.
3. Prepare and submit a report to the PSD, pursuant to 30 V.S.A. §7515 (b)(8), that includes an assessment of how contributions and disbursements are interpreted by different carriers and how those interpretations comply with the statutes 30 V.S.A. §7524 and 30 V.S.A. §7511.
4. Prepare the report so that it can be clearly understood by a legislative audience, and provide recommendations to the PSD on how to ensure future reporting on the VUSF can be clearly understood by a legislative audience.
5. Provide testimony, if necessary, to the Vermont legislature on the report submitted to the PSD.

Fulfilling Task 4, listed above, required that QSI complete the following tasks in order to provide a clear explanation of how the fund works and recommendations if there are areas to improve fund management:

6. Examine the corporate affiliate relationship between the Comcast CLEC, Comcast Phone of Vermont, LLC, and the provider of Interconnected VoIP service to retail customers, Comcast IP Phone II, LLC to ascertain whether Comcast has paid VUSF contributions based on its retail revenue rather than its wholesale revenue.
7. Examine the budget setting and fund management processes. Identify deficiencies in the actual versus budget reconciliation process and recommend changes to improve the accuracy, completeness, and transparency of the process.
8. Analysis and comparison of carrier contributions that would normally be performed by the Fiscal Agent under the standalone carrier audits contemplated by 30 V.S.A. §7524, but which the Fiscal Agent has not been asked to perform since 2008.
9. Identify the portion of VUSF receipts attributable to CMRS carriers to allow the PSD to estimate the impact of requiring prepaid CMRS carriers to assess VUSF surcharges on their customers.

This report contains a description of how QSI's study examined the topics required by Vermont statute as well as the above listed tasks. This study is a management audit of the Fund and is not intended to be a financial audit under Generally Accepted Auditing Standards or Generally Accepted Government Auditing Standards.[23] In performing this study, QSI used the approach and methods summarized in Appendix B.

As part of this study, QSI examined the records of the 20 largest contributors to the Fund in FY 2011/2012. The table below shows the VUSF TSP contributors included in this sample:

[23] An independent Certified Public Account performs a financial audit of the VUSF each year. See, 30 V.S.A. § 7503(d).

Table 3: Top 20 Telecommunications Service Provider Sample

Vermont Universal Service Fund
Initial "Top 20" Telecom Service Provider Sample

Service Provider Name	Service Provider Type
AT&T Corp.	CTC
City of Burlington dba Burlington Telecom	CTC
Comcast Phone of Vermont, LLC, d/b/a Comcast Digital Phone	Interconnected VoIP
CTC Communications Corporation dba ONE Communications	CTC
Enhanced Communications of Northern New England inc. d/b/a Fairpoint Long Distance	CTC
Level 3 Communications LLC	CTC
MCI Communications Services, Inc.	CTC
New Cingular Wireless PCS LLC dba AT&T Mobility	CMRS
NYNEX Mobile LP 1	CTC
PaeTec Communications Inc.	CTC
Performance Assurance	N/A
SoVerNet	CTC
Sprint Spectrum L.P. (Sprint PCS)	CTC
Telcove Operations, LLC	CTC
Telephone Operating Company of Vermont, Inc. (Fairpoint Communications)	CTC
Verizon RSA LP	CTC
Vermont RSA #2-B2, Inc.	CMRS
Vermont Telephone Company, Inc.	ILEC
Vonage America, Inc.	Interconnected VoIP
Waitsfield-Fayston Tel Co., Inc dba Waitsfield Champlain	ILEC

Source: Fiscal Agent remittance records.

This sample includes 19 TSPs: three ILECs, eight CTCs, six CMRS providers, and two Interconnected VoIP providers.[24] Data request were sent to these 19 TSPs as part of the study. The sample also includes the FairPoint PAP payments, which represent nearly 10% of the remittances to the Fund in FY 2011/2012. This sample combined represents 93.5% of the VUSF remittances in FY 2011/2012.

The table below shows the TSP contributors that responded to QSI's data request:

[24] Comcast classifies its digital voice service as Interconnected VoIP service per its November 19, 2012 response to the 1st set of data requests. This is consistent with how cable companies report their end user access line counts on FCC Form 477 for inclusion in the semi-annual FCC Local Competition Report. Interconnected VoIP service providers typically include cable company affiliates who offer voice services over the cable infrastructure as well as unaffiliated companies whose customers utilize another company's broadband connections to access their VoIP services.

Table 4: Telecommunications Service Providers

Vermont Universal Service Fund
Responding Telecom Service Providers

Carrier Name	Carrier Type
AT&T Corp.	CTC
Comcast Phone of Vermont, LLC, d/b/a Comcast Digital Phone	Interconnected VoIP
Enhanced Communications of Northern New England inc. d/b/a Fairpoint Long Distance	CTC
Global Crossing Telecommunication Inc.	CTC
Level 3 Communications LLC	CTC
MCI Communications Services, Inc.	CTC
New Cingular Wireless PCS LLC dba AT&T Mobility	CMRS
Nextel Boost of the Mid-Atlantic, LLC	CMRS
NYNEX Mobile LP 1	CMRS
Performance Assurance	N/A
SoVerNet	CTC
Sprint Spectrum L.P. (Sprint PCS)	CMRS
Telcove Operations, LLC	CTC
Telephone Operating Company of Vermont, Inc. (Fairpoint Communications)	ILEC
Verizon RSA LP	CMRS
Vermont RSA #2-B2, Inc.	CMRS
Vermont Telephone Company, Inc.	ILEC
Vonage America, Inc.	Interconnected VoIP
Waitsfield-Fayston Tel Co., Inc dba Waitsfield Champlain	ILEC

Out of the 19 TSPs in the sample, 17 of them responded to the data request. Two CTCs did not respond, and one CTC that was not included in the initial sample responded.[25] Thus, 18 TSPs were included in the study which, when combined with the FairPoint PAP payments, represents 91.47% of total remittances to the Fund in FY 2011/2012.

C. Vermont Universal Service Fund: At A Glance

1. VUSF Income

Total income for the VUSF was $5,878,694 in FY 2011/2012. The following table shows VUSF income by category for the five most recent fiscal years.

[25] One entity with multiple CTC operating companies in Vermont responded to our request for all of its state operating companies even though one of those operating companies was not included in the original sample.

Table 5: 5-Year Summary of VUSF Income (2008 - 2012)

Vermont Universal Service Fund Income (2007-2012)					
Income Category	**Year Ending June 30, 2008**	**Year Ending June 30, 2009**	**Year Ending June 30, 2010**	**Year Ending June 30, 2011**	**Year Ending June 30, 2012**
Assessments	$ 5,368,767	$ 6,730,134	$ 7,377,048	$ 5,914,178	$ 5,388,457
Interest	$ 52,599	$ 6,703	$ 135	$ 317	$ 288
Late Payment Charges	$ 5,566	$ 4,556	$ 3,030	$ 2,180	$ 2,487
Miscellaneous Income	$ 1,168	$ 4,040	$ 860	$ 990	$ 108
VOIP E911	$ 32,744	$ 37,534	$ 32,551	$ 33,608	$ 33,923
Unapplied Receipts	$ (26,292)	$ (13,740)	$ 135,221	$ (135,607)	$ (5,773)
Performance Assurance			$ 933,521	$ 1,701,836	$ 459,204
Total Fund Income	**$ 5,434,552**	**$ 6,769,227**	**$ 8,482,366**	**$ 7,517,502**	**$ 5,878,694**

Source: Fiscal Agent audited Profit and Loss Statements (accrual basis).

This table shows that there are seven categories of income for the VUSF (listed below from largest to smallest):

(1) Assessments: amounts typically collected from the customers of TSPs. Assessments represent 91.7% of total income in FY 2011/2012.

(2) FairPoint PAP payments: payments made into the Fund by FairPoint as a result of wholesale service quality penalties under its PAP ordered by the PSB (discussed in more detail below). These payments represent 7.8% of total income in FY 2011/2012.

(3) VoIP E911: voluntary payments from Vonage, an Interconnected VoIP provider.[26]

(4) Late Payment Charges: charges that apply for delinquent VUSF payments.

(5) Interest: interest that accrues on VUSF bank deposits.

(6) Miscellaneous Income: income from miscellaneous sources not represented by other categories such as the residual amount of Unapplied Receipts that could not be assigned to current or prior year assessment revenue after the carrier's remittance worksheet was received and compared with its payment.

(7) Unapplied Receipts: remittances received by the Fiscal Agent that cannot immediately be tied to a specific payment obligation.[27]

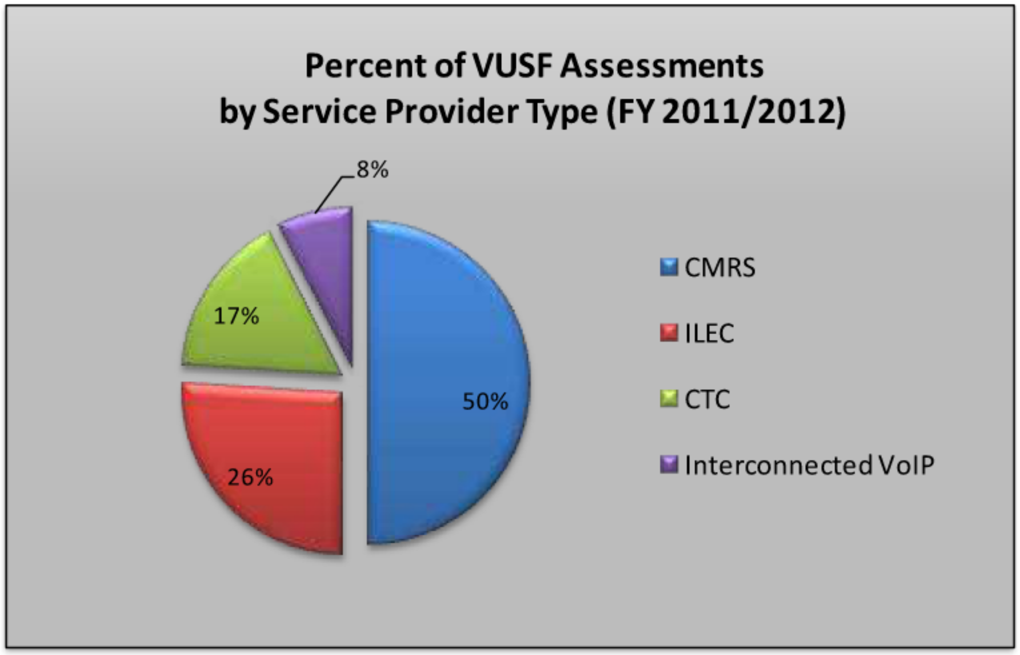
[26] Although it was Vonage's position that it's nomadic VoIP service is not a telecommunications service subject to VUSF and the state had not formally determined whether the company's service was subject to VUSF, in 2006 Vonage voluntarily agreed to provide payments into the Fund in order to support E-911 services. Vonage currently contributes a fixed amount (25 cents) per Interconnected VoIP line served to Vermonters pursuant to a Memorandum of Understanding executed with the PSB in April of 2006.

As shown above, assessments and PAP payments combined comprises 99.5% of total VUSF income in FY 2011/2012. The other five categories represent the remaining 0.5%.

2. Assessments & Contributions

A number of different types of TSPs assess and remit VUSF surcharges, these include: local exchange carriers (both ILECs and CTCs), interexchange carriers, CMRS providers (both post-paid and pre-paid), cable telephony providers and Interconnected VoIP providers. The breakdown of total VUSF assessments for FY 2011/2012 by TSP type is shown below:

Chart 8: VUSF Assessments by TSP Type (FY 2011/2012)

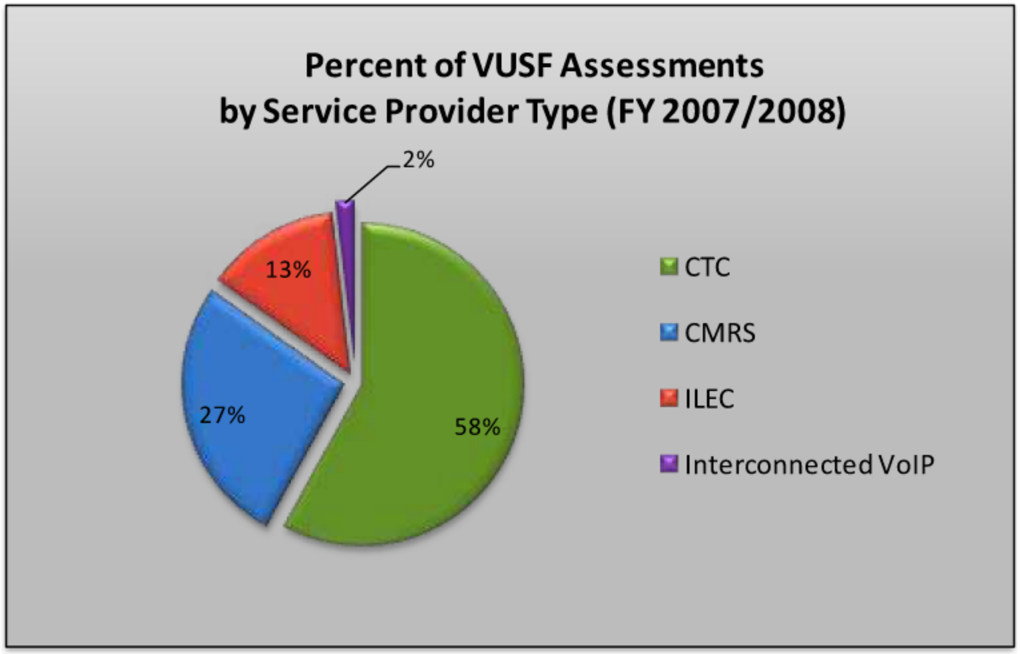


CMRS providers comprise half (50%) of total VUSF assessments in FY 2011/2012. This is about twice that of the ILECs' 26%. CTCs and Interconnected VoIP providers comprise 17% and 8% of total VUSF assessments in FY 2011/2012, respectively. Interexchange carriers are included within the CTC category.

[27] The negative balance in Unapplied Receipts at year-end is due to adjusting entries made to record assessment revenue received, but unapplied, to current year assessment revenue. This adjustment may result in a negative balance if the amount being reclassified is offset by other adjustments affecting prior period receipts.

In recent years, remittances from CMRS providers have increased (as a percent of the total) and remittances from CTCs have dropped. The chart below shows the assessments by TSP type for FY 2007/2008.

Chart 9: VUSF Assessments by TSP Type (FY 2007/2008)

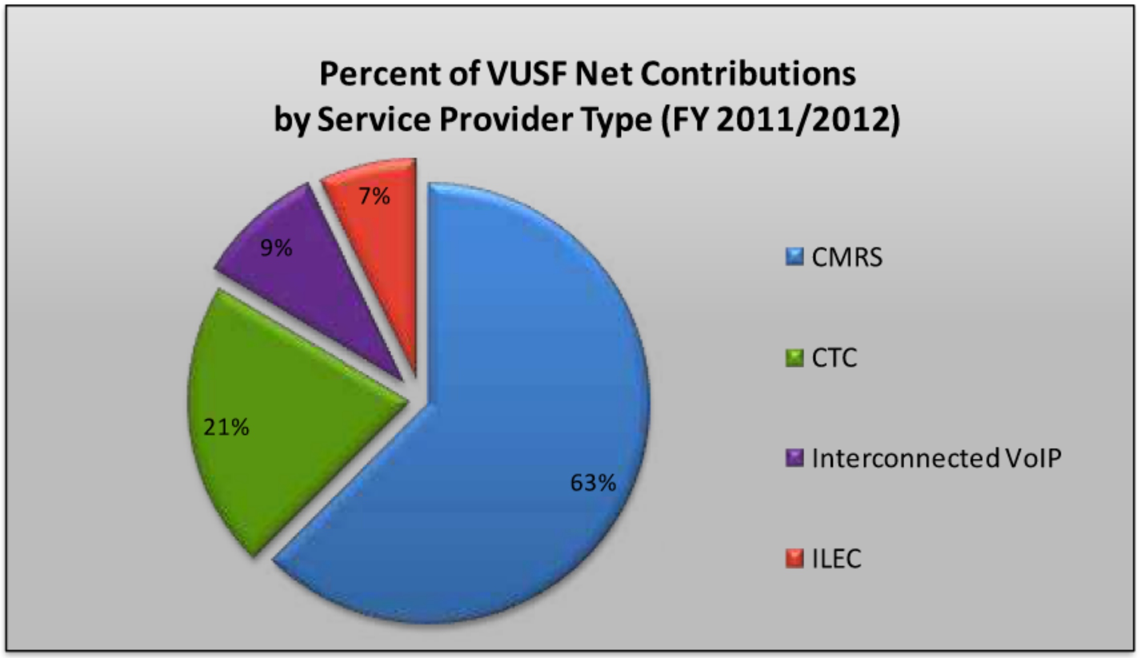


This table shows that CTCs comprised 58% of total assessments in FY 2007/2008 (compared to 17% in the most recent fiscal year), while CMRS providers represented 27% of assessments during that time frame (compared to 50% in the most recent fiscal year). ILECs and Interconnected VoIP providers represented 13% and 2% of the assessments during FY 2007/2008, respectively.

The amount of a TSP's VUSF *assessments* charged to customers may be different than the TSP's *remittances* or *contributions paid* to the Fiscal Agent. For example, the Lifeline benefit and administrative expense credits are supported by the Fund through offsets to the amount the TSP would otherwise be required to remit to the Fiscal Agent. In these cases, remittance amounts are less than assessment amounts by the amount of the Lifeline offset. During FY 2011/2012, 165 entities made remittances to the Fiscal Agent (164 TSPs plus the FairPoint PAP payments). However, the majority of VUSF remittances are concentrated among a much smaller number of TSPs. For example, 19 TSPs and the FairPoint PAP payments comprise 93.52% of the total remittances received by the Fiscal Agent during FY 2011/2012. The remaining 6.48% is divided between the other 145 TSPs. In addition, more than half (54%) of the total remittances during FY 2011/2012 were from three sources: (i) Verizon Wireless, (ii) AT&T Wireless and (iii) FairPoint PAP payments.

The following chart shows the breakdown of total VUSF contributions by service provider type for FY 2011/2012 excluding contributions from the FairPoint PAP payments.

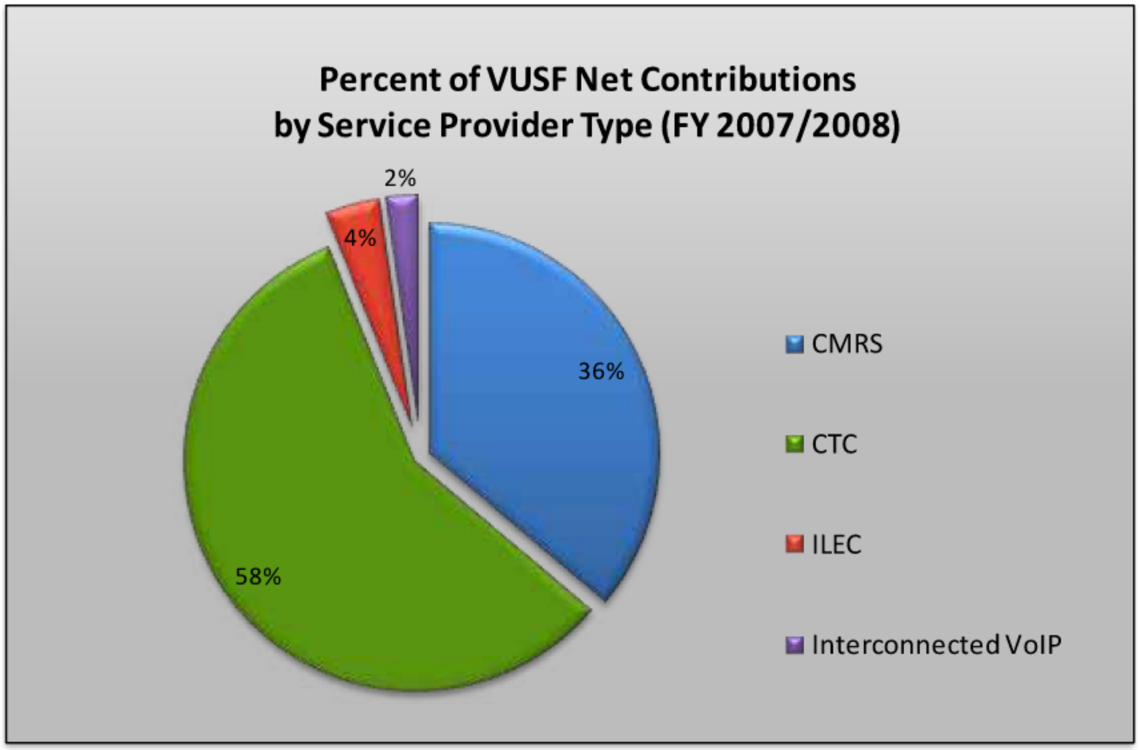
Chart 10: VUSF Contributions by TSP Type (FY 2011/2012)



CMRS providers comprise 62% of contributions in FY 2011/2012 (or nearly three times more than the next largest category – CTCs). ILECs represent 7% of the contributions, which is less than their 26% share of assessments (reflecting the Lifeline credit offsets that reduce contributions relative to assessments).

Like in the case of assessments, the make-up of contributions by TSP type has changed over time. The breakdown of total VUSF contributions by TSP type in FY 2007/2008 is shown below:

Chart 11: VUSF Contributions by TSP Type (FY 2007/2008)



During FY 2007/2008, CTCs comprised 58% of total contributions to the Fund, with CMRS providers representing 36% of the total. ILECs and Interconnected VoIP providers comprised 4% and 2% of total contributions in FY 2007/2008, respectively.

3. *VUSF Expenses*

Total expenses (or disbursements) for the VUSF were $7,183,142 in FY 2011/2012. The following table shows VUSF expenses by category for the five most recent fiscal years.

Table 6: 5-Year Summary of VUSF Expenses (2008 - 2012)

Vermont Universal Service Fund Expenses 2007-2012					
	Year Ending June 30, 2008	Year Ending June 30, 2009	Year Ending June 30, 2010	Year Ending June 30, 2011	Year Ending June 30, 2012
Lifeline Administration	$ 94,952	$ 178,536	$ 105,227	$ 121,012	$ 72,003
Lifeline Credits	$ 1,168,612	$ 1,080,766	$ 945,255	$ 851,023	$ 790,621
E911	$ 4,180,053	$ 5,484,695	$ 5,486,653	$ 4,605,803	$ 5,845,256
VTRS	$ 321,816	$ 345,421	$ 307,780	$ 327,378	$ 305,757
Equipment Disbursement	$ 73,059	$ 71,364	$ 75,079	$ 74,842	$ 74,871
Bank Fees	$ 13,801	$ 15,600	$ 11,428	$ 11,500	$ 11,400
Program Administration	$ 79,799	$ 78,000	$ 69,600	$ 69,600	$ 66,600
Audit Fees	$ 20,225	$ 17,000	$ 20,000	$ 20,000	$ 14,500
Miscellaneous Expense	$ 2,514	$ 4,449	$ 2,189	$ 2,347	$ 2,133
Total Fund Expense	**$ 5,954,831**	**$ 7,275,831**	**$ 7,023,211**	**$ 6,083,505**	**$ 7,183,142**

Source: Fiscal Agent Profit and Loss Statements (accrual basis)

This table shows that there are nine categories of VUSF expenses (listed below from largest to smallest): (1) E911, (2) Lifeline, (3) VTRS, (4) VEDP, (5) Lifeline Administration, (6) VUSF Administration, (7) Audit Fees, (8) Bank Fees, and (9) Miscellaneous Expense. Each of these expense categories are discussed in detail in Section 1(A) above. The one-year high-cost fund disbursement required by SB 180 is not shown in this table because the high-cost payments were made after FY 2011/2012. E911 comprises 81.4% of total VUSF expenses in FY 2011/2012 – more than seven times greater than the second largest expense, Lifeline credits, which comprise 11.1% of the total expenses. VTRS represents 4.3% of total expenses, followed by VEDP and Lifeline Administration at 1% each. The remaining expenses (program administration, audit fees, bank fees, and miscellaneous expense) made up a combined 1.2% of total VUSF expenses in FY 2011/2012.

E911 expenses in FY 2011/2012 were the highest they have been in the last five fiscal years; E911 expenses increased 26.9% in FY 2011/2012 compared to the preceding fiscal year, and were 14% higher than the five-year average. By comparison, Lifeline disbursements, VTRS expenses and Lifeline Administration expenses in FY 2011/2012 were the lowest they have been in the past five years, while VEDP expenses were stable.

Section 2: Fiscal Agent Administration

As described in 30 V.S.A. §7503, the Fiscal Agent of the VUSF has two primary functions: (1) to "receive and distribute funds" and (2) "acts as a fiduciary and holds funds in trust for the ratepayers until the funds have been disbursed" as required by law. Rolka Loube Saltzer Associates ("RLSA") has served as the VUSF's Fiscal Agent since 2006 under contract with the PSB.

A. Fiscal Agent Administration Process Description

There are four key employees of RLSA who are assigned to managing and administering the VUSF:

Table 7: Fiscal Agent Personnel

FISCAL AGENT PERSONNEL RESPONSIBLE FOR ADMINISTRATION OF THE VUSF		
Name	**Title**	**VUSF Responsibilities**
David Rolka	President and Fund Manager	Oversees ongoing operations and all aspects of administration of the VUSF.
Matthew Saltzer	Vice President of Operations	Develops systems and databases used for VUSF administration.
Alec McGrath	Administrative Staff	Enters VUSF data into RLSA databases and ensures data integrity; responds to and seeks answers for identified anomalies in data provided by service providers; retrieves deposit information from lockbox and electronic payments.
Wendy Lutz	Accounting Records Specialist	Maintains accounting records and QuickBooks accounts.

The Fiscal Agent administration process can be divided into five tasks: (1) forecasting, (2) payment receipt, (3) payment processing, (4) disbursements, and (5) reporting. Each of these tasks is described in detail below:

Table 8: Fiscal Agent Administration Processes

FISCAL AGENT ADMINISTRATION PROCESS DESCRIPTION	
Forecasting	RLSA plays a critical role in the annual VUSF forecasting process. Each year in the May-early June timeframe, RLSA provides the PSD with the following estimates: (i) industry revenue to which the VUSF rate shall apply, (ii) interest earnings and miscellaneous earnings, (iii) bad debt expense, and (iv) projected beginning balance for the new rate year. Around the same time, RLSA provides the PSB with the following estimates: (i) annual fiscal agent fees, (ii) annual fiscal agent audit fees, and (iii) carrier audit fees if such audits are anticipated. The Utilities Analyst at the PSB and the Chief of the Consumer Affairs and Public Information Division at the DPS ("CAPI Chief") collect and assimilate revenue and expense projections from RLSA as well as approved expense budgets for the TRS, E911 and Lifeline programs.[28] The CAPI Chief then prepares a budget reflecting approved VUSF distributions, projected Lifeline credits for benefits and administrative costs, and total projected VUSF revenue for the year based on estimated TSP revenue forecasted by RLSA. This document serves as the basis for the recommendation made for the new VUSF assessment rate. The Utilities Analyst plugs the projected revenue, expense and projected rate year beginning balance into a spreadsheet which contains algorithms that automatically calculate a new VUSF assessment rate and partitions the annual amounts calculated by the CAPI Chief into 12 equal monthly amounts. The rate is developed in order to ensure that revenues cover cost and provide approximately 1.5 months of reserve. This spreadsheet becomes the publicly available budget that is attached to the order setting the new VUSF assessment rate. The new VUSF assessment rate is then presented to the PSB for approval. This process must be completed in sufficient time so that the PSB can issue an order establishing the new VUSF assessment rate by July 15th each year. The new VUSF assessment rate is then applied by TSPs to customers' bills beginning on September 1st. RLSA notifies TSPs of the new rate.

28 See Section 5 of this report below for discussion of how the budgets for these programs are developed and approved.

FISCAL AGENT ADMINISTRATION PROCESS DESCRIPTION	
Payment Receipt	The Fiscal Agent receives remittances from TSPs. RLSA issues an electronic worksheet entitled "Carrier Revenue Report & Invoice" for each fiscal year that TSPs are required to use when reporting revenue and remittance amounts due to the VUSF. Instructions are also issued by RLSA to provide guidance on how the TSPs are to complete the remittance worksheet. TSPs fill out the worksheet for each reporting period (*e.g.*, month, quarter, etc[29]) by entering: carrier identification and contact information, billed retail revenues by type (*e.g.*, local exchange, toll, etc.), applicable VUSF assessment rate, total assessments, adjustments (*e.g.,* Lifeline credits, Lifeline administrative expenses), and total remittance due. Companies can complete the worksheet in electronic format or on a paper version. If the electronic worksheet is used, prompts are provided to indicate incomplete or incorrect information so that potential problems can be rectified before the worksheet is submitted to RLSA. These worksheets are signed, under penalties provided by law, by a representative of the TSP for the purposes of attesting to the accuracy of the information therein. TSPs then submit the completed worksheets to RLSA. Worksheets can be submitted by U.S. mail, courier, fax and/or email. The remittance amount calculated on these worksheets represents the TSPs payment obligation to the VUSF. TSPs remit payments to RLSA for the remittance amounts calculated on the worksheets. Companies can make remittance payments either by check (sent to a bank lockbox) or electronically (ACH/EFT). RLSA has a contractual relationship with Manufacturers and Traders Trust Company (M&T Bank) to provide banking and dedicated lockbox services.

[29] Some TSPs make remittances quarterly instead of monthly.

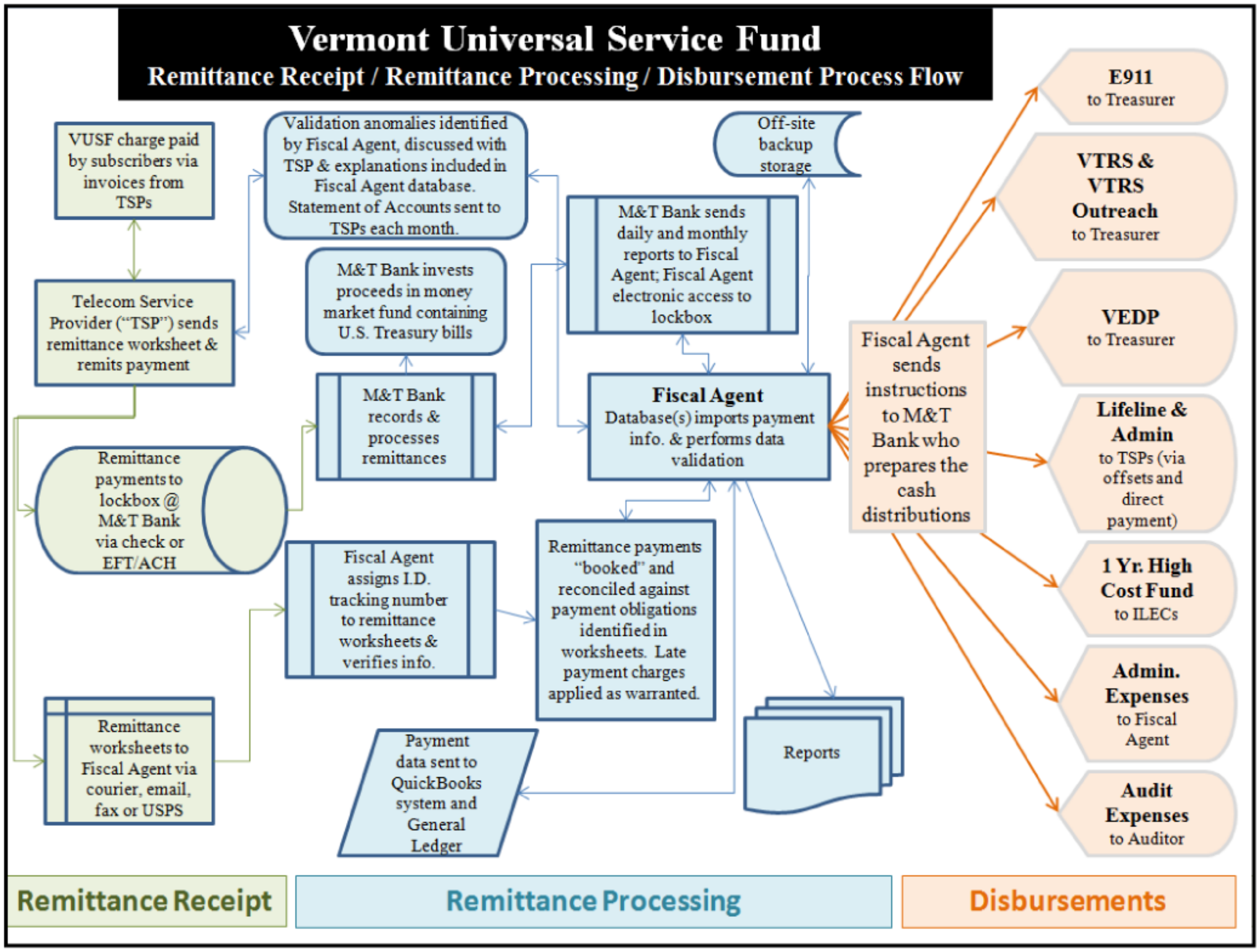
FISCAL AGENT ADMINISTRATION PROCESS DESCRIPTION	
Payment Processing	The Fiscal Agent processes and records payments. Incoming check payments are initially handled by the M&T Bank lockbox department, which is responsible for recording and processing payments. Electronic payments are received directly into the same designated checking account. M&T invests the proceeds in specific investment instruments with predetermined maturities and/or daily liquidity. RLSA has electronic access to monitor lockbox activity, and receives itemized daily reports regarding account activity broken down by paying provider. RLSA also receives monthly bank statements that are reconciled against the lockbox statements. Each worksheet (whether electronic or paper) received by RLSA is assigned an identification (ID) number for tracking revenues, credits, and assessments from TSPs. As payments are received and entered into the RLSA database, they are "booked" toward these individual worksheet ID numbers. When worksheets are received by RLSA, they are checked for signature, accurate completion, and accurate mathematical calculations. RLSA uses a front-end database that electronically imports payment information from TSPs (and is capable of accepting manually-entered data as needed). This database performs automatic data validation, and identifies any anomalies based on historical information. Identified anomalies are brought to the attention of TSPs, explanations are requested, and RLSA's database is annotated to include the TSPs' explanations. The database is linked to the QuickBooks system where the Fund's general ledger is maintained. RLSA's databases also: (1) contain a record of contacts with each service provider and set forth financial information and calculations that relate to each service provider; (2) include features that prompt for open issues; (3) contain all information that is developed to implement PSB directions; and (4) enable efficient tracking of carrier assessments and support. RLSA states that it uses financial and accounting reporting systems that conform to Generally Accepted Accounting Principles ("GAAP") for government entities, as defined by the Government Accounting Standards Board and the Financial Accounting Standards Board. To the extent that a payment is received that cannot be tied to a specific worksheet (*e.g*., RLSA receives payment before the worksheet is received and recorded), the payment is initially recorded as "unapplied" receipts until such time as the payment can be tied to a specific worksheet. At the end of each month, a "Statement of Accounts" unique to each TSP is generated and sent by RLSA to the TSPs. The Statement of Accounts provides a summary of all activity and also serves as a notice of delinquent accounts as well as an invoice for late payment charges. When a required payment has not been received from the TSP by the due date, RLSA's system creates a preemptive "estimated" late payment charge based on the provider's previously reported revenues, which appears on the Statement of Accounts sent to that TSP. All individual Statement of Accounts are rolled up into a single PDF document for archiving purposes. "Delinquency reports" are generated at the end of each quarter and used to provide all information needed to determine which obligations (identified by worksheets) remain unpaid. RLSA also maintains a Chart of Accounts for the VUSF which is maintained by the Account Records Specialist. RLSA uses a mail log to keep track of incoming tangible correspondence by assigning a unique ID number to each item (including description, date received, sender, staff member routed to, related service provider, and notes/details). This process is used for all correspondence, not just for remittance worksheets. RLSA uses off-site storage capabilities to protect against data loss. RLSA also has in place data access controls and non-disclosure agreements to safeguard confidential information used in the administration of the VUSF.

FISCAL AGENT ADMINISTRATION PROCESS DESCRIPTION	
Disbursements	The Fiscal Agent makes disbursements from the Fund in conjunction with M&T Bank. M&T Bank provides the functionality for RLSA to pay disbursements via EFT. For E911, RLSA schedules monthly disbursements based on an approved budget that are paid to the State Treasurer. For TRS service, equipment distribution, and TRS Outreach, invoices are sent to the PSB for review/approval, and then forwarded to RLSA for payment. RLSA authorizes disbursements to the State Treasurer to reimburse the State for TRS payments made to the vendor, Sprint. Lifeline credits/administrative expenses reimbursements are made via an offset to the amount the TSP would otherwise remit to the Fiscal Agent; this is typically not a cash transaction. Payments are made infrequently to certain service providers for Lifeline administrative expenses if the Lifeline offset is greater than the remittance amount otherwise owed. The expenses associated with RLSA's administration of the Fund are a flat rate set by contract; RLSA invoices itself and authorizes payment of those invoices from the Fund on a monthly basis. Expenses for annual independent auditors are sent to RLSA by the auditor and RLSA authorizes payment. Bank fees and investment-related expenses are netted against earnings from investments.

FISCAL AGENT ADMINISTRATION PROCESS DESCRIPTION	
Reporting	RLSA generates numerous reports as a function of its administrative duties that are provided to the PSD and/or PSB. Those reports are summarized below: • Beginning of Year Forecast: In July of each year, RLSA prepares a "Beginning-of-Year Forecast" for each month of the new fiscal year, which shows: revenues, disbursements, operating surplus/deficit, and opening/closing Fund balances. • Fund Performance Reports: RLSA generates a monthly "Fiscal Agent Fund Performance Report" which shows: revenue received, disbursements, operating surplus/deficit, and opening/closing Fund balances. Each of these items is shown according to monthly activity and fiscal year-to-date. The Fund Performance Reports also show the projected fiscal year-to-date numbers for these items taken from the "Beginning-of-Year Forecast." • Net Assets Report: RLSA generates a monthly "Net Assets Report" that shows assets, liabilities and net unrestricted assets, on an accrual basis. This report considers service provider contributions as receivables only if they are reported but unpaid. • Lifeline Program Reports: RLSA generates a monthly "Lifeline Program Report" that lists, for each local exchange carrier: number of customers served, total credits granted, average payment per customer, and administrative expense. Also, by February 1st, RLSA provides to the PSD a report describing participation in the Lifeline Program during the preceding calendar year, including: information relating to Lifeline receipts and disbursements, and number and dollar value of federal Link-Up credits reimbursed to each Vermont local exchange carrier during each of the twelve months of the preceding calendar year. • Aged Receivables: After each quarter, RLSA prepares an aged receivables report describing, by age group, all overdue carrier receivables. • Delinquency Report: RLSA prepares "Delinquency Reports" at the end of each quarter, which are used to provide all information needed to determine which obligations (identified by worksheets) remain unpaid. • Statement of Accounts: RLSA generates a "Statement of Accounts" for each TSP at the end of each month. This report provides a summary of all activity and serves as a notice of delinquent accounts as well as an invoice for late payment charges. RLSA's accounting operations are audited by an independent accountant each year in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). Waggoner, Frutiger & Daub, LLP – a certified public accounting firm – has performed the independent financial audit of the VUSF each year for the last several years. QSI received and reviewed the last four financial audit reports going back to FY ending June 30, 2008 and reconciled the VUSF internal financial statements to the audit reports. The independent auditor's reports are provided to the PSB, the PSD, the Auditor of Accounts, and Vermont Department of Finance and Management. By September 15th each year, RLSA also sends a preliminary, unaudited annual financial statement for the VUSF for the preceding fiscal year to the State, which is prepared according to GAAP for governmental entities.

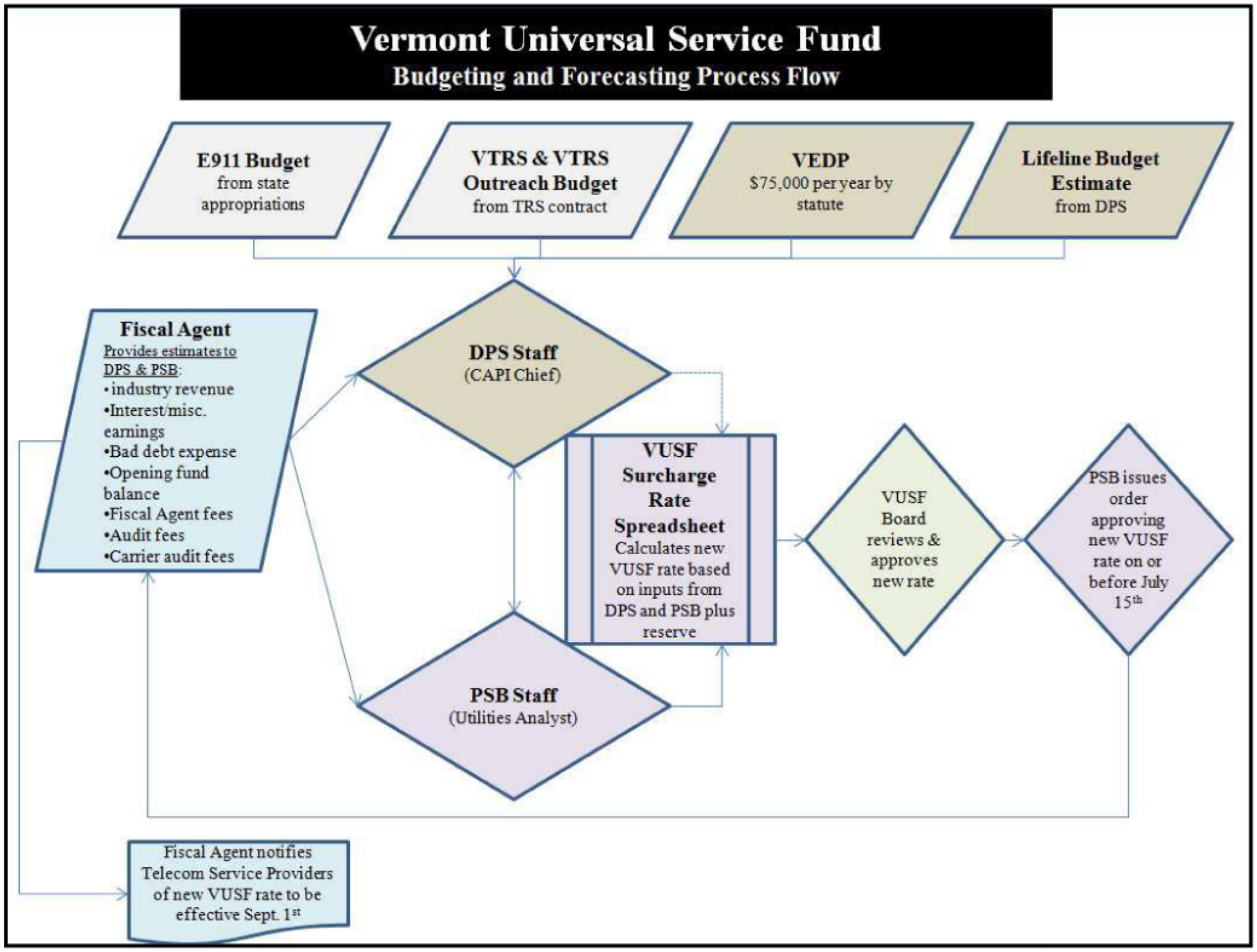
The processes and procedures used by the Fiscal Agent in its management and administration of the VUSF are depicted below:

Flow Diagram 2: Fiscal Agent Processes and Procedures



The budgeting and forecasting process is depicted below:

Flow Diagram 3: VUSF Budgeting and Forecasting Process



B. Examining VUSF Administration

1. Accounting Records

QSI reviewed the Fiscal Agent's balance sheets and profit & loss statements to determine whether they agree with both the annual audited financial statements produced by the independent auditors and the monthly Fiscal Agent Fund Performance Reports distributed to the PSB and PSD. QSI noted the following:

- The Fiscal Agent's annual reporting period is a fiscal year that begins July 1st and ends the following June 30th.[30]

- The Fiscal Agent prepares its internal monthly financial statements on a cash basis, which means they measure the actual flow of cash in and out of the business. Income is recorded when it is received, and expenses are reported when they are actually paid.

- After the annual audit is completed, the results on the balance sheet as of June 30th and the profit and loss statement for the year ending June 30th are converted to an accrual basis in conformance with GAAP. In accrual basis accounting, revenue is recognized on the financial statements when it is earned rather than when it is received; expenses are recognized when the obligation to pay the expense has been incurred rather than when actual payment is made.

- The Fiscal Agent's internal financial statements agreed with the audited financial statements for FY 2008/2009, FY 2009/2010, FY 2010/2011, and FY 2011/2012 – except for minor differences caused by the reclassification of Miscellaneous Expenses by the auditors as an offset to revenue versus the Fiscal Agent's classification as a disbursement.

- The Fiscal Agent's internal financial statements agreed with the monthly VUSF Fiscal Agent Fund Performance Reports for FY 2008/2009, FY 2009/2010, FY 2010/2011, and FY 2011/2012 – except for the reports issued in June of each year. This is due to post-audit adjustments to the Fiscal Agent records after the year-end audit is completed to restate the June balance sheets and profit & loss statements to the accrual basis, consistent with the basis of the audited financial statements. Since the VUSF Fund Performance Reports are prepared on a *cash* basis, the June reports will not agree with the audited financial statements prepared on an *accrual* basis.

2. Evaluating VUSF Performance Compared to Budget

QSI was asked to evaluate the performance of the VUSF budget process and identify where the process can be improved to provide legislators and other interested parties information on VUSF performance that is transparent, accurate, and easy to understand. To accomplish this objective, QSI performed three tasks:

(1) documented the budget process;
(2) examined key inputs, assumptions, and calculations; and
(3) reconciled actual VUSF performance to budget for the last four years.

For the first task, documenting the budgeting process, QSI documented how the annual budgets are prepared by interviewing the three key participants in the budget process: the Fiscal Agent, the Utilities Analyst, and the CAPI Chief. The forecasting process and timeline is described in

[30] The Fiscal Agent could not provide a citation to any statute or rule requiring the VUSF financial records to be maintained on a fiscal year basis of July 1st - June 30th. QSI noted that the State of Vermont's Comprehensive Annual Financial Report is prepared on the same fiscal year calendar.

Section 2.A above. QSI found that the Fiscal Agent, Utilities Analyst, and CAPI Chief all have an integral role in the budget process. However, it is the CAPI Chief that synthesizes all of the inputs, assumptions and calculations together into worksheets that serve as the basis of the forecast submitted to the PSB for approval of the VUSF assessment rate established by July 15th each year.

For the second task in this evaluation, examining key inputs and assumptions, QSI examined the supporting worksheets and calculations relied upon by these three individuals to identify the key inputs and assumptions used in the budget development process and how they are used to develop forecasted VUSF revenue and disbursements. This step proved to be more difficult than anticipated due to: (a) inconsistent or conflicting accounts of how the budgets are developed by the three participants, and (b) QSI's inability to obtain the versions of the Fiscal Agent's forecasts containing the same projected beginning balances used by the PSD and PSB to create the budget submitted to the PSB for approval.

The third and final step taken in this evaluation process was to develop a reconciliation of actual VUSF performance to approved budget for the fiscal and rate years 2008/2009, 2009/2010, 2010/2011, and 2011/2012. This additional step was intended to fulfill the objective from Task 4 of QSI's contract, and sought to address (1) concerns raised by interested parties about the difficulty they have experienced in attempting to reconcile actual VUSF balances, receipts, and disbursements to approved budget amounts found in the public budget relied upon by the PSB when setting the VUSF assessment rate each year and (2) the lack of explanations for variances from the approved budget. Consequently, QSI performed a comprehensive reconciliation for this four-year period to compare actual results versus approved budget amounts.

The reconciliation was prepared from a detailed review of the PSB-approved budgets, the Fiscal Agent's forecast workbooks, the budgets prepared by the CAPI Chief, and the monthly Fiscal Agent Fund Performance Reports for the fiscal and rate years 2008/2009, 2009/2010, 2010/2011, and 2011/2012.[31] The reconciliation examined the following:

1. Opening balance per the PSB budget versus the VUSF actual balance as of September 1st.
2. VUSF budget versus actual receipt activity for the 12 months ending August 31st segregated into five steps:
    a. VUSF receipts before deduction of Lifeline credits by the carriers;
    b. Subtract Lifeline credits for customer benefits and carrier administration costs;
    c. Equals VUSF receipts net of Lifeline credits;
    d. Identify the portion of net VUSF receipts attributable to FairPoint PAP payments; and
    e. Identify the portion of net VUSF receipts attributable to carrier contributions and interest income.
3. VUSF budget versus actual disbursement activity for the 12 months ending August 31st.

[31] The results of this reconciliation of budgeted to actual performance are contained in Appendix C.

4. Closing balance per the PSB budget versus the VUSF actual balance as of August 31st.

Finding No. 1

The primary obstacle to comparing actual results to approved budgets is the timing differences between the "rate year" used for budgets (September 1st - August 31st) versus the "fiscal year" used in the Fiscal Agent Fund Performance Report (July 1st - June 30th). The only report that currently evaluates actual results to budgeted amounts is the monthly VUSF Fiscal Agent Fund Performance Report. This report contains three columns of data as shown in the illustrative excerpt below (only headings of the report are shown):

Vermont Universal Service Fund
Fiscal Agent Fund Performance Report
September 2012

VTUSF	Monthly Activity	Fiscal YTD	Projected Fiscal YTD

Column *Monthly Activity* contains VUSF receipts and disbursement activity for the current month reported on a cash basis. Column *Fiscal YTD* contains VUSF receipts and disbursement activity from July 1st of the current fiscal year through the current month end date. Column *Projected Fiscal YTD* contains budgeted receipts and disbursements compiled from the budgets approved by the PSB.

Since the rate year for the budget is different than the fiscal year used for maintaining VUSF records, the Fiscal Agent's database is programmed to add and subtract amounts from two different rate years to calculate the *Projected Fiscal YTD* amounts. For example, to calculate the *Projected Fiscal YTD* amount for a given line item in the Fiscal Agent Fund Performance Report for the 12 months ending June 30, 2012, amounts for the 10-month period September 2011 through June 2012 in the approved budget for rate year 2011 - 2012 must be added to the two-month period July 2011 - August 2011 in the approved budget for rate year 2010 - 2011.

Recommendation

The monthly Fiscal Agent Fund Performance Report should be modified to add two additional columns that calculate (1) year-to-date actual results on a rate year basis and (2) projected year-to-date results on a rate basis. This will provide the data needed to easily compare VUSF performance to PSB-approved budgets, consistent with the time periods used to set the budgets. Per discussion with the Fiscal Agent, the VUSF database can be modified to incorporate these two additional columns fairly easily. Additionally, the monthly report should include comments explaining the cause of the variances between actual results and budget. Such explanations are common in management reports that companies prepare internally to inform executive management of the organization's operating results and the reasons for deviation from its projections. A formal change to the Fiscal Agent's scope of work by the PSB would likely be required to make this change.

Finding No. 2

The Fiscal Agent Fund Performance Report is currently distributed only to the PSD and PSB. This makes it difficult for other parties to evaluate the performance of the VUSF. Per discussion with the Fiscal Agent, the monthly fund performance report is comprised of four reports: (1) Fund Performance, (2) Fund Performance Graphs, (3) Lifeline Program Report, and (4) the Delinquency Report. Before this information is distributed more widely, the Fiscal Agent advised QSI that the PSB and PSD must first determine what information in these reports is confidential so that a standardized report without confidential information can be created.

Recommendation

The Fiscal Agent Fund Performance Report should be posted on the PSB's or Fiscal Agent's website each month. The PSB and PSD staff should determine what information can be released publicly and then authorize the Fiscal Agent to post that information online. If the Fund Performance Report cannot be posted online, the distribution of the report should be expanded to include key decision makers that are authorized to view this information.

Finding No. 3

To test the accuracy of the Fiscal Agent's database used to produce the Fiscal Agent Fund Performance Report, QSI successfully replicated calculations of the VUSF receipts and disbursements in the *Fiscal YTD* column of the Fiscal Agent Fund Performance Report on a test basis using year-to-date amounts in the June Profit & Loss statements for the last three years. However, QSI was unable to replicate the calculation of the *Projected Fiscal YTD* receipts and disbursements for the same time period using amounts in the PSB-approved budgets. The discrepancies we identified are noted in the table below:

Table 9: PSB-Approved Budget vs. VTUSF Fund Performance Report Projected YTD

RECONCILIATION OF VUSF BUDGET TO PROJECTION IN VTUSF FUND PERFORMANCE REPORT
BASED ON FISCAL YEAR CALENDAR (JULY 1 - JUNE 30)

Description	VUSF Receipts (net of Lifeline credits)	Disbursements (includes Lifeline credits)
	JULY 2009 - JUNE 2010	
Projected Fiscal YTD Using PSB-approved VUSF Budgets	$ 6,441,296.25	$ 7,447,762.33
Fiscal Agent Projected Fiscal YTD	$ 6,360,159.00	$ 7,446,128.00
Difference	$ (81,137.25)	$ (1,634.33)
Primary Reason for Differences		
	JULY 2010 - JUNE 2011	
Projected Fiscal YTD Using PSB-approved VUSF Budgets	$ 4,687,305.30	$ 6,821,034.33
Fiscal Agent Projected Fiscal YTD	$ 4,444,011.00	$ 6,674,164.00
Difference	$ (243,294.30)	$ (146,870.33)
Primary Reason for Differences		
	JULY 2011 - JUNE 2012	
Projected Fiscal YTD Using PSB-approved VUSF Budgets	$ 4,178,913.61	$ 7,742,100.17
Fiscal Agent Projected Fiscal YTD	$ 2,999,946.67	$ 7,738,767.34
Difference	$ (1,178,966.94)	$ (3,332.83)
Primary Reason for Differences		
	JULY 2012 - JUNE 2013	
Projected Fiscal YTD Using PSB-approved VUSF Budgets	$ -	$ -
Fiscal Agent Projected Fiscal YTD	N/A - FISCAL YEAR NOT COMPLETE	
Difference		

As shown in the table above, the largest discrepancy occurred during FY 2012 year in projected VUSF receipts, where projected receipts in the Fiscal Agent's Fund performance report were $1,178,967 *less* than projected receipts in the approved budget. Per discussion with the Fiscal Agent, QSI discovered that the Fiscal Agent's database double counted the impact of the Lifeline credits by subtracting them from projected cash receipts expected from carriers which are already net of Lifeline credits (since carriers deduct these amounts before remitting their VUSF contributions). This occurred as a result of a formula error in the database. The database should have either subtracted Lifeline credits from gross revenue due from carriers or just used the net cash receipts number.

Adjusting for this formula error accounts for most of the difference noted above; it also reveals that the variance is the result of at least two errors occurring in opposite directions that net out to the difference noted above. Since projected Lifeline credits were $1,401,780 in the approved budget, adding this amount to projected net receipts in the Fiscal Agent's Fund performance report would then result in projected receipts being $285,427 *greater* than projected receipts in the approved budget.[32] QSI did not receive an explanation of this remaining difference in FY 2012 nor the other variances noted in the prior years from the Fiscal Agent despite repeated requests.

Recommendation

The Fiscal Agent should ensure that the VUSF database is calculating amounts in the *Projected Fiscal YTD* correctly within the Fiscal Agent Fund Performance Report. This will ensure the accuracy of the report and facilitate relevant comparisons of actual results versus approved budget amounts. To the extent such differences are warranted, the reason for the differences should be explained within the report.

Finding No. 4

The beginning balance as of September 1st used in the PSB-approved budget did not agree with the actual VUSF balances in any of the four years examined. This is due to the time of year when the budget must be prepared for PSB approval of the new VUSF assessment rate. The budget is completed by late June of each year using the Fiscal Agent's forecast of current year results based on eight or nine months of actual results. Because forecasted receipts and disbursements over the remaining months of the rate year can vary significantly from actual receipts and disbursements, the projected beginning balance as of September 1st for the new rate year will likewise be significantly different from the actual beginning balance for the new rate year. QSI was unable to obtain the versions of the Fiscal Agent's forecasts containing the specific projected beginning balances used by the PSD and PSB to create the budget submitted to the PSB for approval.

Recommendation

The PSB-approved budgets should be trued-up with the actual beginning balance of the VUSF once financial results for the month of August are known. This will cause the projected ending balance in the budget at the end of August of the following year to be more accurate. If a change cannot be made to the approved budget for legal or procedural reasons, the beginning balance should be clearly noted as "projected", as well as the basis on which it was projected. Additionally, the Fiscal Agent should reconcile the actual VUSF balance on September 1st to what was projected to: (1) identify the cause of the variance between budget and actual results and (2) improve the forecasting process of the beginning balance in the next year.

Finding No. 5

The budget is prepared by dividing projected annual receipts, Lifeline credits, and disbursements by 12 to calculate 12 equal months of activity. This ignores patterns of seasonality in carrier revenue as well as fluctuations in carrier remittances to the VUSF. Also, the budget does not take into account the cash flow timing of changes made to the VUSF assessment rate and certain disbursements. For example, the VUSF rate change becomes effective September 1st each year.

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32 Projected Lifeline credits were $1,401,780 in the approved budget. Projected cash receipts net of Lifeline credits were $4,067,811 in the approved budget. Projected cash receipts net of Lifeline credits in the Fiscal Agent's fund performance report at the end of FY 2012 were $2,951,458. The difference in projected net cash receipts is $1,116,353 ($4,067,811 - $2,951,458). Comparing this difference to budgeted Lifeline credits of $1,401,780 results in a difference of $285,427.

However, remittances based on this new rate are not received until October since the TSPs bill the new surcharge rate in the September invoice paid by customers in October.

Recommendation

Patterns observed in prior year actual results tracked by the Fiscal Agent should be considered in the development of new budgets each year, along with known and measurable changes expected during the upcoming year. At a minimum, the budget should reflect the one-month lag in receipts after the new VUSF rate becomes effective September 1st. September receipts from carriers should be based on the prior year VUSF rate and carrier revenue assumption, while October receipts should reflect the new VUSF rate and carrier revenue assumptions. Known timing differences for specific program distributions should be accounted for in a similar fashion.

Finding No. 6

Projected interest income has been significantly overstated each year since 2008. The high point for interest income during this period was in the fiscal year ending June 30, 2009, when the VUSF earned approximately $5,000. In the three years since, interest income has been less than $500 per year. The following table compares expected interest income to actual interest income by year.

Table 10: Summary of Interest Earnings versus Budget

ANALYSIS OF ACTUAL VERSUS BUDGETED INTEREST INCOME

RATE YEAR PERIOD	ACTUAL	BUDGET	OVERSTATEMENT (UNDERSTATEMENT)
2008 - 2009	$ 5,180	$ 44,354	$ 39,174
2009 - 2010	$ 141	$ 19,352	$ 19,211
2010 - 2011	$ 320	$ 69,785	$ 69,465
2011 - 2012	$ 276	$ 82,166	$ 81,890

The primary cause for this wide disparity is the overstated interest rate used in the summary budget worksheet to develop the recommended VUSF rate the PSB ultimately approves. The budget worksheet assumes a monthly interest rate of 0.387%, which equates to an annual interest rate of 4.6%. This rate assumption has been in effect for each budget since 2008. However, starting in 2009, the Fiscal Agent reduced the monthly interest rate by a factor of 10 to 0.040% based on the trend of the 4-week Treasury bill secondary market rates in effect at that time. The 4-week Treasury bill secondary market rates have remained at this level since then. To test the accuracy of the Fiscal Agent's more conservative interest rate assumption for forecast purposes, QSI reviewed two recent monthly statements from M&T Investment Group and found that the actual income yield of the money market fund containing VUSF investments was approximately 0.01% on an annual basis (or 0.00083% per month) – nearly 50 times less than the rate used in the Fiscal Agent's forecasts and over 5,500 times less than the rate used by the Utilities Analyst in the approved budget. Consequently, current interest earnings are negligible and should not be relied upon as a receipt for planning purposes.

Recommendation
The budget worksheet prepared by the Utilities Analyst should be adjusted to assume zero interest income until the 4-week Treasury bill rates increase.

Section 3: Collections from Customers

A. Collection Process Description

TSPs assess VUSF surcharges to customers by placing a VUSF surcharge on their customers' bills. For example, if the retail telecommunications charges on a customer's bill total $10, the VUSF surcharge (or assessment) on the bill would be 18 cents ($10 x 1.82%). VUSF surcharges are collected by TSPs when customers pay their bills.

The collections process is defined by three primary parameters:

1. Who is required to collect VUSF surcharges? All companies qualifying as a "Telecommunications Service Provider" must assess, collect and remit VUSF surcharges.

2. On what services should VUSF surcharges be collected? All retail telecommunications services are subject to the VUSF surcharge.

3. How much should be collected? The amount collected is (at a high level) a product of the billed retail telecommunications services revenue and the PSB-approved VUSF assessment rate.

The VUSF collections process was examined by:

1. Comparing the companies that are assessing and collecting VUSF surcharges to the authorized TSPs in Vermont for the purpose of verifying whether companies that should be assessing and collecting VUSF surcharges are actually doing so;
2. Analyzing the services on which companies are assessing and collecting VUSF surcharges and, more importantly, services that are excluded from VUSF surcharges; and
3. Evaluating the extent to which companies are collecting the correct amount from customers and in accordance with applicable billing requirements.

B. "Telecommunications Service Providers" required to collect VUSF surcharges

Companies defined as "Telecommunications Service Providers" are required to collect and remit VUSF surcharges.[33] TSPs are those companies that hold a certificate of public good from the PSB to offer intrastate service or provide only interstate service pursuant to authorization by the

[33] Per 30 V.S.A. §7501(b)(6), telecommunications service provider means a company required by law to hold a certificate of public good from the public service board to offer telecommunications service for intrastate service, or is authorized by the Federal Communications Commission to offer interstate telecommunications service. PSB Interpretation, §101 states: "Telecommunications service providers are liable for collecting the Universal Service Charge for all their retail billings and to paying those charges to the fiscal agent..." 30 V.S.A. §7502 permits the PSB and the PSD to interpret the provisions of the Universal Telecommunications Service Law.

Federal Communications Commission ("FCC"). Examples of companies that are defined as TSPs are listed below:

Table 11: Types of TSPs

	Companies That Are "Telecommunications Service Providers"
1	**Local exchange carriers**
2	**Inter-exchange carriers**
3	**Cellular carriers**
4	**Competitive access providers**
5	**Operator service providers**
6	**Customer-owned pay telephone providers**
7	**Resellers of services offered by facilities based carriers**

Source: 1994 PSB interpretation.

Companies that are *not* TSPs are essentially retail customers that must pay the VUSF surcharge on all of their purchased telecommunications services; these companies need not collect any VUSF surcharges.[34] Examples of companies that are not TSPs are listed below:

[34] PSB Interpretation §103.

Table 12: Companies that are not TSPs

	Companies That Are Not "Telecommunications Service Providers"
1	**Aggregators**: *e.g.* , hotels and hospitals that, in the ordinary course of their operations, make telephones available to the public or to transient users of their premises using a provider of operator services.
2	**Companies that maintain private networks serving only that company**: to the extent that there are separate business units, and one unit provides telecommunication service to another, the former is a telecommunications service provider and the price of that service is subject to the charge. Also, any supplementary purchases made by the private network, such as for trunk lines from a local exchange carrier, are subject to the charge.
3	**Colleges that provide local telephone service to their students**: colleges do not have certificates of public good; when they purchase access into the local telephone network those purchases are retail purchases and are subject to the USF Charge. Sales from colleges to students are not subject to the USF Charge.

Source: 1994 PSB interpretation.

The PSB maintains several lists of companies that hold a certificate of public good and are authorized to provide telecommunications services in the State.[35] There is a list of authorized local exchange carriers and long distance providers (or interexchange carriers), a list of authorized CTCs, a list of authorized CMRS providers, and a list of customer owned pay telephone providers ("COPTS"). These lists contain the companies' names, contact information, and a code indicating the type of service provider.[36] There isn't a separate list for authorized interexchange carriers; however, certain companies on the local exchange carrier lists also provide interexchange services. Since TSPs include companies that hold a certificate of public good from the PSB, QSI reviewed these lists to (1) determine how many of the certified carriers are contributing to the VUSF and (2) identify companies that may not be contributing as required.

There were a total of 165 companies that made VUSF remittances to the Fiscal Agent in FY 2011/2012. Out of these 165 companies, QSI verified that 147 (89%) of these companies either currently hold a certificate of public good from the PSB today or held such a certificate in the past. The remaining 18 companies did not appear on the PSB's lists of authorized providers, nor

35 The lists of authorized telecommunications service providers are available on the PSB website: http://www.state.vt.us/psb/utility_listings/utility_listings.stm. These lists were last updated in 2008.

36 "ILEC" denotes an incumbent local exchange carrier; "CR" denotes a CTC that is either a facilities-based provider or reseller; "R" denotes a reseller; "O" denotes an operator service provider; and "CAP" denotes a competitive access provider.

was QSI able to find a PSB order granting these 18 companies a certificate of public good.[37] QSI also determined that there are numerous companies shown on the PSB lists as holding a certificate of public good which are not currently paying into the VUSF. For example, the PSB lists show a total of 111 companies as certified "CLEC & Regular Reseller".[38] Out of these 111 companies, 28 of them made a remittance to the Fiscal Agent in FY 2012, while 74 of them have not made a remittance in at least the last five years. In addition, out of the 49 certified CMRS companies in Vermont, 26 of them made remittances to the Fiscal Agent in FY 2012, while 18 of them have not made a remittance in at least the last five years. Out of the 27 certified operator service providers in the State, three made remittances to the Fiscal Agent in FY 2011/2012, while 21 have not made a remittances in at least the last five years. Of the 33 certified customer-owned pay telephone providers in the State, two made remittances in FY 2011/2012 and 29 have not made a remittance in at least the last five years. Finally, out of the 260 companies certified as "Regular Reseller" (some of which provide long-distance service), 71 of them made a remittance to the Fiscal Agent in FY 2011/2012, while 161 of them have not made remittances in at least the last five years.

The differences identified above between the carriers shown on the PSB lists as holding a certificate of public good versus those companies contributing to the VUSF can be explained by a number of factors. First, not all companies certified by the PSB are actively providing telecommunications services in the state.[39] Second, the PSB lists indicate that they were last updated in 2008 and could include companies that have stopped providing services in the state since that time. Both of these factors could explain why more certified carriers are shown on the PSB lists than are contributing to the Fund. Companies that hold certificates of public good but are not currently providing telecommunications services in Vermont would not have assessable revenue for VUSF purposes and would not be making remittances to the Fiscal Agent.

To more precisely identify active companies that are likely to have assessable revenues for VUSF purposes, QSI requested and received from the PSD a list of companies that filed annual reports with the PSD for the most recent year (calendar year 2011). According to a discussion with the PSD, the list provided reflects its best estimate of the active service providers in Vermont. This list was compared to the list of 165 companies making remittances to the Fiscal Agent in FY 2011/2012. The PSD list of annual report filers contains 10 ILECs, 42 CMRS providers, and 217 CTCs/resellers. The results of this comparison are summarized below:

[37] QSI also performed research of Vermont PSB orders granting certificates of public good within Lexis/Nexis legal databases.

[38] Some of these CTCs also provide long-distance services.

[39] There are a number of reasons why a certified telecommunications service provider may not be actively providing service in the state. They could have stopped operations in the state without yet surrendering their certificates, or they could be a new company that is preparing to launch service, etc.

- 7 out of the 10 ILECs made remittances to the Fiscal Agent in FY 2011/2012.[40]
- 31 out of 42 CMRS providers (74%) made remittances to the Fiscal Agent in FY 2011/2012;
- 120 out of 217 CTCs and resellers (55%) made remittances to the Fiscal Agent in FY 2011/2012.

Finding No. 7

There are dozens of companies believed to be actively providing telecommunications services in Vermont that are not collecting VUSF surcharges and making VUSF remittances to the Fiscal Agent. It is unlikely that all of these companies are receiving assessable telecommunications services revenue, but some likely are. The financial impact of this issue on the Fund is likely small because the customer base, and, therefore, the assessable revenue, of these carriers is relatively small.

Recommendation

All carriers that file annual reports with the PSD should be sent a reminder of their obligation to participate in the VUSF program, and asked to either confirm that they do currently participate or provide an explanation of why they do not. In the alternative, this request could be sent only to those companies that filed annual reports showing telecommunications services revenue who have not reported that revenue to the Fiscal Agent.

C. VUSF surcharges are Collected on "Telecommunications Services"

Once it is determined that a company qualifies as a "Telecommunications Service Provider", the next issue to consider is the services on which the VUSF surcharge should be assessed. Vermont statutes state: "[a] universal service charge is imposed on all retail **telecommunications service** provided to a Vermont address."[41] The term "telecommunications service" is a defined term in 30 V.S.A. §7501(b)(5):

> the transmission of any interactive electromagnetic communications that passes through the public switched network. The term includes, but is not limited to, transmission of voice, image, data and any other information, by means of but not limited to wire, electric conductor cable, optic fiber, microwave, radio wave, or any combination of such media, and the leasing of any such service.

The term "telecommunications service" is also defined in 30 V.S.A. §203(5):

[40] Three ILECs (Franklin Telephone Company, Perkinsville Telephone Company, and Topsham Telephone Company, Inc.) filed annual reports but are not reflected in the list of companies that made remittances to the Fiscal Agent in FY 2011/2012. While these three ILECs did not make remittances to the Fiscal Agent in FY 2011/2012, they do assess and collect VUSF surcharges; however, their Lifeline offsets appear to be greater than the remittance amount they would otherwise owe to the Fiscal Agent.

[41] 30 V.S.A. §7521(a) (emphasis added).

the transmission of any interactive two-way electromagnetic communications, including voice, image, data and information. Transmission of electromagnetic communications includes the use of any media such as wires, cables, television cables, microwaves, radio waves, light waves or any combination of those or similar media. Telecommunications service does not include value added nonvoice services in which computer processing applications are used to act on the form, content, code and protocol of the information to be transmitted unless those services are provided under tariff approved by the public service board.

Further guidance about what constitutes a "telecommunications service" (or a transaction subject to or exempted from the VUSF surcharge) is found in Vermont Statutes as well as the PSB's interpretation of those statutes. This guidance is summarized in the following two tables; the first table lists examples of transactions that *are* subject to the VUSF surcharge ("telecommunications service") and the second table lists examples of transactions that *are not* subject to the VUSF surcharge (not "telecommunications service").

Table 13: Transactions Subject to the VUSF Surcharge

	Examples of "Telecommunications Service" (Transactions Subject To The VUSF Charge)	
1	Local telephone service, including any facility or service provided in connection with such local telephone service. This includes: basic monthly charges, EAS charges, local measured service usage, location charges for "mileage bands," federal EUCL, and any directory related charges such as for additional listings or for non-publication or non-listing of a telephone number.	30 V.SA. §7501(b)(5)(A)(i) & PSB Interpretation §201(A)
2	Enhanced services provided through the local switch such as call forwarding, caller identification, and voice mail, but only to the extent that these charges are not stated separately from other local services.	PSB Interpretation §201(B)
3	Toll telephone service (intrastate, interstate or international).	30 V.S.A.§7501(b)(5)(A)(ii) & PSB Interpretation §201(C)
4	Directory assistance (voice and electronic).	30 V.S.A. §7501(b)(5)(A)(iii) & PSB Interpretation §201(D)
5	Two-way cable television service that interacts with the public switched networ (e.g., a home shopping system wherein a customer orders merchandise from a mail order firm by creating some input for the local television set that is sent to the head end of the video system, processed, and forwarded on telephone lines to the retailer.)	30 V.S.A. §7501(b)(5)(A)(iv) & PSB Interpretation § 201(G)
6	Mobile telephone or telecommunication service (analog and digital) & Cellular telephone service.	30 V.S.A. §7501(b)(5)(A)(v) & PSB Interpretation §201(E)
7	PCN service	PSB Interpretation §201(F)

Source Vermont Statutes and PSB 1994 Interpretation

Table 14: Transactions Not Subject to the VUSF Surcharge

	Services That Are Not "Telecommunications Service" (Transactions Not Subject To The VUSF Charge)	
1	Wholesale transactions. When one telecommunications service provider purchases a service from another such provider as a component part of a service provided to an end user, the transaction is "wholesale" and is not subject to the Universal Service Charge. Examples are: (1) access charges paid by or to a local exchange carrier; (2) interconnection charges paid by or to a cellular provider; (3) billing and collection charges.	30 V.S.A. §7521 (b) & PSB Interpretation §202(A)
2	Services consisting primarily of the creation of artistic material or other information that is later transmitted over telecommunications equipment, including: (1) information services (e.g., America Online, Westlaw), (2) electronic bulletin boards, (3) transmission of work of art over the telephone network, (4) diagnostic services provided online by a computer company, (5) voicemail where the charge is stated separately from other covered telecommunications sevices. However, but only to the extent that charges for such information processing are separated from charges for other telecommunications services, and only to the extent that such information is not used by any telecommunications service provider in the administration of the telecommunications network.	30 V.S.A. §7501(b)(5)(B)(i) & PSB Interpretation §202(B)
3	Mobile radio and paging services that do not have an electronic interface into the public switched network.	30 V.S.A. §7501(b)(5)(B)(ii) & PSB Interpretation §202(C)
4	Private (proprietary) network services; provided, however, that payments by a private network to a telecommunications service provider, such as for point-to-point transmission services, are not exempt under this subdivision.	30 V.S.A. §7501(b)(5)(B)(iii) & PSB Interpretation §202(D)
5	Telecommunications services paid for at the point of purchase by depositing coins or currency.	30 V.S.A. §7501(b)(5)(B)(v) & PSB Interpretation §202(H)
6	Charges incurred by utilizing prepaid telephone calling cards or prepaid authorization numbers.	30 V.S.A. §7501(b)(5)(B)(vi)
7	Sale and rentals subject to the sales and use tax. This includes sales and rental of telephone equipment.	PSB Interpretation §202(E)
8	Installing or maintaining the inside wires of a customer.	PSB Interpretation §202(F)
9	Yellow pages advertising.	PSB Interpretation §202(G)
10	Payments between aggregators and operator services providers, such as when an operator service provider pays a hotel (aggregator) for the right to put a pay telephone in the hotel's lobby.	PSB Interpretation §202(I)
11	Video on demand, where a customer input selects only a video to be seen by the customer, and where there is no connection to the outside telephone system.	PSB Interpretation §202(J)

The data requests to sampled TSPs asked for: (1) a list of services the provider offers in Vermont, (2) a list of services the provider excludes from the VUSF surcharge as well as the basis for excluding the service, (3) examples of residential and business invoices showing the VUSF surcharge, and (4) a description of how the VUSF surcharge shown on the bill was calculated. The table below summarizes the services that the sampled TSPs consider assessable for VUSF purposes as well as those services that are excluded from the VUSF surcharge.

Table 15: Key Service Inclusion/Exclusion for VUSF Assessment by Carrier

SUMMARY OF KEY SERVICE INCLUSION / EXCLUSION FOR VUSF ASSESSMENT BY CARRIER

	GENERAL CATEGORIES		SPECIFIC CATEGORIES								
CARRIER	RETAIL SERVICES (GENERALLY)	WHOLESALE AND NON-TELECOMMUNICATIONS SERVICES (30 V.S.A Section 7521)	FEDERAL ACCESS LINE CHARGE (EUCL)	FEDERAL USF	ENHANCED SERVICES	TOLL SERVICES	DATA SERVICES	INTERNET SERVICES	EQUIPMENT	DIRECTORY ASSISTANCE / OPERATOR SERVICES	INSIDE WIRE / INSTALLATION / MAINTENANCE / LABOR
1	INCLUDED	EXCLUDED	EXCLUDED	EXCLUDED	VOICE MAIL EXCLUDED	INCLUDED	N/A	N/A	N/A	DA EXCLUDED	EXCLUDED
2	INCLUDED	EXCLUDED	N/A	EXCLUDED	VOICE MAIL EXCLUDED	INCLUDED	EXCLUDED	EXCLUDED	EXCLUDED	N/A	N/A
3	INCLUDED	EXCLUDED	N/A	EXCLUDED	EXCLUDED (listed separately on invoice)	INCLUDED	N/A	EXCLUDED	EXCLUDED	INCLUDED	EXCLUDED
4 & 5	INCLUDED	EXCLUDED	INCLUDED	INCLUDED	EXCLUDED (listed separately on invoice)	INCLUDED	INCLUDED	EXCLUDED	EXCLUDED	INCLUDED	EXCLUDED
6	INCLUDED	EXCLUDED	N/A	INCLUDED	N/A	INCLUDED	N/A	EXCLUDED	N/A	INCLUDED	N/A
7	INCLUDED	EXCLUDED	N/A	INCLUDED	N/A	INCLUDED	EXCLUDED	EXCLUDED	N/A	INCLUDED	EXCLUDED
8	INCLUDED	EXCLUDED	N/A	INCLUDED	N/A	INCLUDED	N/A	N/A	N/A	N/A	EXCLUDED
9	INCLUDED	EXCLUDED	INCLUDED	EXCLUDED	EXCLUDED (listed separately on invoice)	INCLUDED	N/A	N/A	EXCLUDED	EXCLUDED	EXCLUDED
10 & 11	INCLUDED	EXCLUDED	N/A	EXCLUDED	EXCLUDED	N/A	EXCLUDED	N/A	N/A	INCLUDED	N/A
12	INCLUDED	EXCLUDED	N/A	INCLUDED	INCLUDED	INCLUDED	EXCLUDED	EXCLUDED	N/A	N/A	N/A
13	INCLUDED	EXCLUDED	N/A	INCLUDED	INCLUDED	INCLUDED	INCLUDED	EXCLUDED	EXCLUDED	N/A	EXCLUDED
14 & 15	INCLUDED	EXCLUDED	N/A	INCLUDED	EXCLUDED	INCLUDED	EXCLUDED	EXCLUDED	EXCLUDED	N/A	EXCLUDED
16	INCLUDED	N/A	N/A	N/A	N/A	INCLUDED	N/A	N/A	N/A	N/A	N/A
17	INCLUDED	EXCLUDED	INCLUDED	EXCLUDED	VOICE MAIL EXCLUDED	INCLUDED	EXCLUDED	EXCLUDED	EXCLUDED	N/A	EXCLUDED
18	INCLUDED	EXCLUDED	INCLUDED	INCLUDED	VOICE MAIL EXCLUDED	INCLUDED	N/A	EXCLUDED	EXCLUDED	N/A	EXCLUDED

This table demonstrates that there are substantial inconsistencies among TSPs as to how they interpret the Vermont statutes and PSB rules governing VUSF assessments to retail customers. Some TSPs assess the VUSF on federal USF charges billed to customers while others do not. Certain services such as data and Internet represent a "gray area" of compliance that may require further clarification by the PSB. While the definition of "telecommunications service" in 30 V.S.A. §203(5) appears to give the PSB the authority to subject a wide array of services to the VUSF assessment including data and Internet services, the definition of "telecommunications service" in 30 V.S.A. §7501(b)(5) appears to modify this definition for VUSF purposes to services that pass through the public switched network ("PSTN"). Consequently, the scope of 30 V.S.A. §7501(b)(5) may provide a rationale for excluding data and Internet services from VUSF assessment.

Services that are excluded from the VUSF fall into four categories:

(1) exclusions that are appropriate based on specific exemptions contained in Vermont statutes and PSB rules;

(2) exclusions that are clearly not telecommunications services;

(3) exclusions that fall into a "gray area" of whether they are "telecommunications services" depending on interpretations of the statutes; and

(4) exclusions that are incorrect and should be rectified.

Examples of exclusions for each of these four categories are listed below.

1. ***Exclusions based on specific statute and/or rule exemptions such as 30 V.S.A. §7521 and PSB Interpretation of 1994 §§ 201.B and 202.***
   - wholesale services such as switched access,
   - features that are invoiced separately on customer bills,
   - directory advertising,
   - equipment, and
   - inside wire maintenance.

2. ***Services that are clearly not telecommunications services.***
   - late fees,
   - upgrade fees,
   - power charges,
   - software,
   - non-recurring charges for installation, disconnection, and change fees,
   - labor for professional services or repairs, and
   - administrative and general services.

3. ***Services that fall into a gray area of whether they are retail telecommunications services based on carrier interpretation of 30 V.S.A. §7501(b)(5) and §7521 as well as federal rules and accepted industry definitions.***
   - federal USF and Access Recovery charges,
   - voice mail,
   - DSL service,
   - IP services,
   - text messaging,

- data services, and
- Internet services.

Data and Internet services are the two most significant services from an assessable revenue standpoint. The revenue from each of these two services comprises a significant percentage of the revenue carriers earn from their customers, and the percentage will continue to increase as customers increasingly rely upon data and Internet-based applications for their communications needs.

4. Services that are clearly assessable but are not assessed VUSF surcharges

- federal subscriber line charge (EUCL),
- directory assistance,
- enhanced services unless they are billed as separate line items, and
- toll-related services.

Finding No. 8
There is a significant degree of inconsistency among TSPs in terms of the services excluded from the VUSF surcharge. There is a "gray area" regarding certain services such as data and Internet services, which is apparently leading to differing interpretations of statutes and PSB requirements. In addition, certain sampled TSPs are not assessing VUSF surcharges on services that are clearly assessable.

Recommendation
A legal review of the "gray areas" (such as data and Internet) services should be conducted to ascertain once and for all whether these services are assessable for VUSF purposes. This would not only bring additional clarity to the process and increase the consistency of VUSF surcharges to customers, but would potentially increase VUSF revenues. Carriers who are not assessing VUSF surcharges to correct services should be required to rectify the situation.

D. Parameters Defining the Amount of VUSF Collections

1. VUSF Assessment Rate

TSPs are required to charge the VUSF assessment rate that is approved by the PSB each year. The PSB sets the VUSF assessment rate by July 15th each year to be effective for the following "rate year" which runs from September 1st through August 31st of the following year. Currently, the VUSF rate is 1.82% of retail telecommunications services billings, and this rate applies for the "rate year" 9/1/2012 through 8/31/2013. The VUSF assessment rate in effect for every rate year since July 2006 is shown in the table below:

Table 16: VUSF Assessments by Time Period

VUSF Assessment Rate by Time Period	
VUSF Assessment Rate	Time Period
1.25%	7/06 - 8/08
1.70%	9/08 - 8/09
2.00%	9/09 - 8/10
1.35%	9/10 - 8/11
1.60%	9/11 - 8/12
1.82%	9/12 - 8/13

TSPs were asked for information showing the assessment rate they have applied to customers' bills each month for the last five years. Responses were reviewed and compared to the PSB-approved assessment rate for each month (shown in the table above). Sample customer bills were also reviewed to verify that the current PSB-approved assessment rate of 1.82% is actually being assessed. Overall, TSPs assessed the correct, PSB-ordered VUSF assessment rate over time. No exceptions were observed. It should be noted, however, that one TSP (Vonage) does not assess the PSB-ordered VUSF assessment rate. Instead, this TSP calculates VUSF remittances by applying $0.25 per line pursuant to a 2006 agreement with the PSB.

TSPs also indicated that they have established processes in place to ensure the accuracy and correctness of the VUSF rate. Some TSPs use tax/surcharge software packages in conjunction with their billing system to provide rate updates, and some include VUSF remittances as part of their Sarbanes-Oxley controls.

2. Calculation of VUSF Surcharge

In simple terms, the VUSF surcharge is calculated by multiplying the VUSF assessment rate to the billed retail "telecommunications service" revenue on the customer's bill. Both of these inputs – the assessment rate and telecommunication services – are addressed above. However, it is not as simple as multiplying two numbers together because certain billed services are exempt from the VUSF surcharge.[42] The data requests to TSPs asked for sample bills for residential and business customers and explanations of how the VUSF surcharge on the bills are calculated. This information was examined to understand the logic behind TSPs' calculations of the VUSF surcharges assessed to customers, and QSI verified the formulae used to calculate the VUSF surcharges shown on customers' bills. During this verification process, two notable issues were identified:

1. Allocation percentages: numerous TSPs use company-determined percentages for allocating revenue from a service bundle/package into buckets of (i) assessable revenue and (ii) what the provider considers to be non-assessable revenue. Allocation percentages are also used to allocate discounts between (i) assessable revenue and (ii)

[42] PSB Interpretation §405B.

what the provider considers to be non-assessable revenue. For example, if a service bundle purchased by a customer includes voice, vertical features, data, etc., one TSP applies a pre-determined percentage to the bundle's revenue to identify the revenue associated with each component (*e.g.*, voice versus data) of the bundle. The VUSF rate is then applied only to the components the TSP deems chargeable for VUSF purposes. As a hypothetical example, if a package costs $50, and the allocation percentage applied by the TSP assumes that half is voice and half is data, the VUSF surcharge would be calculated as follows:

Table 17: Example of TSP Revenue Allocation Before Assessing VUSF

1	Voice/Data Bundle Revenue	$50
2	Provider's Allocation %	50% voice / 50% data
3	Allocated Revenue	$50 x 0.5 = $25 voice $50 x 0.5 = $25 data
4	Assessable Revenue	$25 voice
5	VUSF assessment rate	1.82%
6	VUSF Charge	$25 x 1.82% = $0.46

As this illustrative example shows, the allocation percentages have a direct impact on the amount of the VUSF surcharge that is calculated. Absent the allocation percentage, the VUSF surcharge calculated in the above example would be $0.91 (not $0.46). Importantly, the rationale for using the allocation percentage in this example is that the TSP excludes data/Internet services from the VUSF, which is one of the "gray areas" discussed above. In addition, the TSP itself decides what the allocation percentage is. TSPs develop these allocation percentages internally when a new plan/bundle is created, and the allocation percentages can vary by bundle/package.

Discounts are allocated among services in a similar fashion. For example, a TSP may offer a discount for purchasing a bundle consisting of local calling, features, and long-distance calling. The TSP (a) divides the discount between the various components of the bundle, (b) discounts the revenue for each component by the allocated amount, and (c) applies the VUSF rate to the discounted revenue for the components it deems chargeable for VUSF purposes. As a hypothetical example, if a package of local service, features, and long-distance calling costs $50; the discount for the package is $10; and the TSP excludes certain services in the package from the VUSF surcharge, the calculation of the VUSF surcharge would look something like the following:

Table 18: Example of TSP Discount Allocation Before Assessing VUSF

	Service in Bundle	Revenue	Discount	Discounted Rev.	VUSF Rate	VUSF Charge
1	Local Network Access Line	$25	$5	$20	1.82%	$0.36
2	Call Waiting	$5	$1	$4		
3	3-Way Calling	$5	$1	$4		
4	Voice Mail	$5	$1	$4		
5	Long Distance	$10	$2	$8	1.82%	$0.15
6	**Totals**	**$50**	**$10**	**$40**		**$0.51**

When used, these TSP-calculated allocation percentages have a direct impact on the TSPs' VUSF surcharges assessed to customers and, ultimately, the amount remitted to the Fiscal Agent.

2. Prepaid Wireless: One of the sampled TSPs is a prepaid CMRS provider. Customers of this provider buy a wireless handset and then purchase minutes or a certain calling plan to add to the phone on a prepaid basis. This TSP does not send its customers monthly invoices, and therefore, does not assess a particular bill line item associated with the VUSF. This prepaid CMRS company does, however, make remittances to the Fund. This company runs queries to identify the services that are assessable for VUSF purposes and reports this revenue on the VUSF remittance form. The VUSF rate is then applied to this revenue amount to calculate the amount owed to the Fiscal Agent, and a check is sent to the Fiscal Agent for that amount. In other words, the TSP treats remittance amounts not as a "flow-through" to customers but instead as a cost of doing business. QSI understands that there is some debate as to whether prepaid CMRS providers are required to make remittances to the VUSF, primarily due to differing interpretations of V.S.A. §7501(b)(5)(B)(vi) which exempts "charges incurred by utilizing prepaid telephone calling cards or prepaid authorization numbers." Despite this debate, certain wireless carriers who have been identified as providing predominately prepaid service currently make remittances to the Fund. The TSP discussed above reported $5,524,582 in assessable revenue between 2007 and 2012. Likewise, a second prepaid CMRS carrier reported $14,428 in assessable revenue in 2011 and the first 6 months of 2012, and a third prepaid CMRS carrier reported $486,489 in assessable revenue in 2011 (but did not report assessable revenue in 2012).

3. *VUSF Surcharge Line Items on Customers' Bills*

TSPs are permitted to show the VUSF surcharge as a line item on customers' bills. The PSB interpretation indicates that the VUSF surcharge line item should be labeled in one of the following ways: "Vermont Universal Service Charge", "Vermont Universal Service Fund", Vermont USF Charge", or the "Vt. USF Charge".[43] QSI requested and reviewed subscriber invoices to examine whether TSPs have a line item for the VUSF surcharge on customers' invoices, and whether those line items are labeled as one of the four above-listed labels. All of the sampled TSPs include a VUSF surcharge line item on customers' bills, except for a prepaid CMRS service provider that does not issue monthly invoices to customers. Regarding the labels TSPs place on this line item, not all of them adhere to one of the four labels suggested by the PSB. Other labels for the VUSF line item that are used include: "State – Univ Serv Assessment" , "State Universal Service Fund Charge" , "Regulatory Recovery Fees" (which is combined with federal USF charge) , "State Universal Service Fund" , "VT UNIVERSAL SERVICE FUND" and "VT USF Surcharge = 1.82%" , and "Vermont Universal Service" .

QSI also requested and reviewed collection data from TSPs to examine whether the TSP has a tariff reference describing the VUSF,[44] and whether the service provider gives customers an explanation of how the VUSF surcharge is calculated at least once per year.[45] Pursuant to Vermont regulations, nondominant carriers are not required to have tariffs on file with the PSB; therefore, only the dominant carriers (*i.e.*, ILECs) in the sample reported having tariffs on file. Each of these ILEC tariffs contains a reference describing the VUSF. In addition, several other sampled TSPs indicate that they describe the VUSF on their websites or in product guides/price lists. Annual explanations of how the VUSF surcharge is calculated are not typically provided by sampled TSPs, but certain TSPs provide customers a bill message each year when the VUSF rate changes that describes the new rate and provides a brief description of the VUSF. One sampled TSP does not issue monthly invoices at all.

Finding No. 9

First, certain TSPs utilize allocation percentages that they derive internally in order to divide bundled service offering revenue between assessable and non-assessable services, as well as to apportion discounts between assessable and non-assessable services. These allocation percentages have a direct impact on the VUSF surcharges assessed to customers, and neither the amount of the percentages nor the supporting documentation or logic underlying those percentages has been reviewed by an independent party. Second, regarding prepaid CMRS providers, there is some uncertainty as to whether these carriers should be making remittances to the VUSF. While some prepaid CMRS providers are, in fact, making remittances to the VUSF, others are not and consider themselves to be exempt under V.S.A. §7501(b)(5)(B)(vi). Third, not all TSPs currently use one of the approved line item labels found in PSB Interpretation §405(A) for the VUSF surcharge; however, all line item labels used clearly describe the line item for what it is – a state VUSF surcharge. Fourth, all dominant carriers included in the sample have tariffs on file that describe the VUSF. Fifth, not all TSPs provide an annual explanation of how the VUSF surcharge is calculated at least once per year as discussed in §405(C) of the PSB's 1994 interpretation.

[43] PSB Interpretation §405A.

[44] 30 V.S.A. §7521(a).

[45] PSB Interpretation, §405(C).

Recommendation
QSI recommends no action be taken at this time regarding the TSP-derived allocation percentages. First, not all TSPs utilize this approach, so it is not a widespread issue. Second, this issue may be largely moot depending on the additional clarification on excluded services discussed under Finding No. 8. In other words, since many bundled offerings package together voice and data services, if it is determined that data and Internet services are indeed assessable (not exempt as currently treated by numerous TSPs), then the need to divide bundled packages into assessable and non-assessable services goes away for these packages. If the clarification indicates that data and Internet are exempt, then further investigation of the allocation percentages may be warranted to ensure that the percentages are fairly and accurately allocating revenue to assessable services.

Regarding prepaid CMRS providers, clarification of V.S.A. §7501(b)(5)(B)(vi) is needed such that prepaid CMRS providers know for certain whether they are obligated to participate in the VUSF. A clarification indicating that prepaid CMRS providers must contribute would likely increase the Fund's revenues, but a clarification indicating they are exempt would result in a decrease in VUSF revenues because prepaid CMRS providers who currently contribute would likely cease doing so.

In addition, all TSPs should be reminded of their obligation to provide customers with an explanation of how the VUSF surcharge is calculated at least once per year.

E. FairPoint Performance Assurance Plan payments

In addition to VUSF surcharges assessed, collected, and remitted by TSPs, the Fund also currently derives revenue from FairPoint PAP payments. This was a requirement that was originally applied to Verizon's PAP pursuant to an April 2004 PSB Order in Docket No. 6255,[46] and was inherited by FairPoint when it acquired Verizon's properties in Vermont in 2008.[47] The first FairPoint PAP payment made to the VUSF during the study period was in April 2010. Between April 2010 and the end of FY 2012, a total of $3,004,965 has been paid into the VUSF from these performance assurance payments.[48] This constitutes 15.75% of the total remittance amount over the most recent three fiscal years.

[46] "All payments under the MOE segment of the PAP will be made to the Vermont Universal Service Fund established under 30 V.S.A. § 7501 et. seq., in such form and at such times as the Board determines." Verizon Vermont PAP, Implementation: June 1, 2004, at p. 13. (Compliance filing in response to VT PSB Docket No. 6255, Order Re: Changes to Verizon's Performance Assurance Plan, Order Entered 4/15/2004.)

[47] VT PSB Docket No. 7270, Order Re: Modified Proposal, Order Entered 2/15/2008, at ¶ 73 ("FairPoint shall adopt and be subject to the Performance Assurance Plan ('PAP') that now applies to Verizon in Vermont. FairPoint shall adhere to the applicable PAP and Carrier-to-Carrier Guidelines in Vermont and shall be subject to the potential penalties and enforcement mechanisms set forth in those documents. The terms and conditions of the PAP shall remain in effect and applied to FairPoint until the Board orders a successor PAP. FairPoint has agreed not to challenge the Board's jurisdiction to enforce the PAP.")

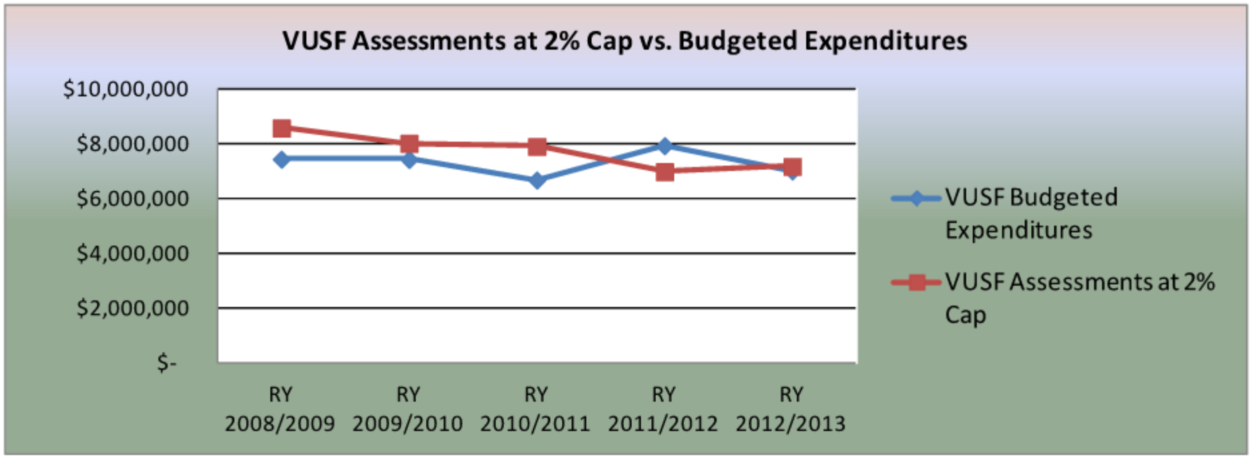
[48] Source: Fiscal Agent remittance records, ending 6/30/2012.

FairPoint indicates that on or before the 28th of each month it sends a wholesale service quality plan report to the PSD, informs the Fiscal Agent about the amount of the payment, and then remits the payment within 30 days of monthly report submission via automatic funds transfer (FairPoint does not use the Fiscal Agent worksheet for these remittances). These performance assurance penalty payments are not (and cannot be) accounted for in the VUSF assessment rate-setting process because there is no indication of what those amounts may be in the future. The Fiscal Agent assumes this amount to be $0 in its forecast of receipts for the budget. The Fiscal Agent has no insight into the amounts of the performance assurance payments provided or the amount of future performance payments. Rather, the Fiscal Agent receives a fax from FairPoint indicating what FairPoint owes for performance assurance payments; this is the only information the Fiscal Agent receives on this item. The Fiscal Agent, the Utilities Analyst, and the CAPI Chief – the individuals responsible for developing VUSF budgets and forecasts – all expressed concerns about the impact on the Fund from the potential elimination of these performance assurance payments. Also, all three of these individuals agreed that the Fund is likely unsustainable (*i.e.*, would not generate enough revenues to cover expenses) if the FairPoint PAP payments are eliminated from the Fund – particularly in light of the 2% legislatively-mandated cap on the VUSF assessment rate. FairPoint indicated that there may be changes to the FairPoint wholesale performance plan in the future which may result in no further PAP payments being made into the VUSF.

Finding No. 10

The 2% legislatively-mandated cap on the VUSF assessment rate limits the PSB's flexibility to respond to changing market conditions affecting carrier revenue trends and the potential elimination of the contributions from the FairPoint PAP. Absent the $3,004,965 in FairPoint PAP payments, the assessment rate would have been much higher than the actual rates in FY 2011 and FY 2012, and it is highly unlikely that the high cost fund distribution of $755,000 could have been made earlier this fiscal year. These payments have provided a large cushion for the Fund to support expenditures. However, these penalties might be discontinued in the future and no longer cover potential shortfalls of the projected budget.

The chart below relates the VUSF budget versus the total that could be assessed within the 2% cap. The revenue base subject to the charge has been declining, and as a result so has the total amount the Fund can generate. This indicates that there is a potential that the charge may be unable to generate adequate funds in the future unless something is done to either cut the budget or increase the cap.



Recommendation

The PSB should work with the legislature to change the cap in the current statute. Alternatively, the PSB could work to expand the base of revenue subject to VUSF assessment. However, this approach is likely to lead to legal challenges by the TSPs.

Section 4: Remittances to Fiscal Agent

A. Remittance Process Description

Remittances refer to the VUSF payments made from TSPs to the Fiscal Agent. Remittances are governed by 30 V.S.A. §7524, which requires TSPs to: pay to the Fiscal Agent all VUSF receipts collected from subscribers, provide a report with remittance payments, make remittances by the 15th of each month based on receipts for the preceding month, and maintain remittance records. This statute also permits TSPs to offset Lifeline credits from their remittance amounts.

To provide remittances to the Fiscal Agent, TSPs fill out a worksheet provided by the Fiscal Agent entitled "Carrier Revenue Report & Invoice." This worksheet identifies: the service provider, the reporting period, the amount of billed retail revenues by source (*e.g.*, local exchange, toll, operator service, mobile/cellular, etc.), the VUSF assessment rate applied, adjustments (Lifeline credits, administrative expenses, late payments, etc.), and total remittance due. This worksheet is signed, under penalties provided by law, by a representative of the remitting TSP for the purposes of attesting to the accuracy of the information therein. The completed worksheet along with the remittance payment due is then sent to the Fiscal Agent. Payment can be made either by check or electronically (ACH/EFT). Signed worksheets may be sent by U.S. Mail or courier, or may be faxed or emailed to the Fiscal Agent. The "Carrier Revenue Report & Invoice" worksheet and related instructions for FY 2012/2013 are provided as Appendix D.

Some sampled TSPs indicated that they use third-party vendors for VUSF remittance purposes. In these instances, the TSP provides financial information to the third-party, and the third-party prepares the worksheet and remits payment on the TSP's behalf using the process described above. Other sampled TSPs indicate that they include VUSF reporting/remittance in their Sarbanes-Oxley controls.[49]

B. Examining Remittances to Fiscal Agent

The following table shows the amount of remittances (inclusive of late payment charges) from TSPs to the Fiscal Agent, each year for the most recent five fiscal years.

[49] Section 404 of the Sarbanes-Oxley Act of 2002 requires that each annual report submitted to the Securities Exchange Commission contain an assessment of the effectiveness of the internal control structure and procedures of the issuer for financial reporting.

Table 19: Total VUSF Remittances (FY 2008 - 2012)

Vermont Universal Service Fund Remittance by Year					
	Year Ending June 30, 2008	Year Ending June 30, 2009	Year Ending June 30, 2010	Year Ending June 30, 2011	Year Ending June 30, 2012
Total Remittances	$ 3,937,139	$ 5,402,633	$ 6,850,069	$ 4,706,210	$ 4,510,804

Source: Fiscal Agent remittance records.

Remittances during FY 2011/2012 totaled $4,510,804, which is the lowest level in four years.[50] Remittances decreased by 4% from the previous fiscal year and decreased by 34% from the fiscal year before that. Although the FairPoint PAP payments are not included in the table above, the results are the same: remittances (plus performance payments) in FY 2011/2012 were at the lowest level in four years.

1. Reconciling Remittance Records

In order to examine remittances from TSPs to the Fiscal Agent, remittance records were requested from both the TSPs (showing the amounts they paid to the Fiscal Agent) and the Fiscal Agent (showing the amounts the Fiscal Agent received from the TSPs). These records were compared for reconciliation purposes, differences were noted, and explanations for differences were requested from the TSPs and Fiscal Agent. In some cases, the remittance amounts reported by the TSPs reconciled exactly to the amounts reported by the Fiscal Agent. In other cases, the records did not initially appear to tie out and further investigation was conducted to identify the factor(s) causing those differences. Although our investigation was not intended to be a "carrier audit,"[51] QSI expanded its scope of testing to ascertain the reason for the discrepancies. QSI found that the differences in remittances between the TSP and Fiscal Agent records generally relate to anomalies within the TSPs' records as noted below:

(1) late payment charges that were not initially reported by the TSPs;

(2) revised / updated monthly remittance worksheets and related payments; or

(3) were otherwise immaterial.[52]

[50] The remittance amounts shown in this data reflect cash payments made to the Fiscal Agent by TSPs. These amounts are lower than assessment amounts due to Lifeline offsets. Also, the amounts shown in the table reflect remittances on a cash basis – or, in other words, reflect the cash payments made during the twelve month period ending June 30th of each year. Cash payments made after the close of a fiscal year (even if it is associated with a payment obligation from that fiscal year) are reflected in the next fiscal year.

[51] The term "carrier audit" is used to describe the type of review contemplated in 30 V.S.A. §7524(c) which authorizes the PSB or fiscal agent to examine TSP records demonstrating compliance with this chapter of Vermont statutes.

[52] We have observed one payment which was recorded by the service provider as being $11.01 higher than was recorded by the Fiscal Agent, which does not appear to be explained by late payment charges or by a revised monthly worksheet. This amount is de minimis.

Out of a total of $20.28 million in remittances by the sampled carriers between July 2007 through June 2012, all but $11 was reconciled between the Fiscal Agent and TSP remittance records. Thus, additional, more detailed carrier audits to identify material differences between the Fiscal Agent's and TSPs' remittance records would be of little, if any, value. It should be noted, however, that this conclusion does not address whether or not the TSPs are assessing the VUSF surcharge on the appropriate services based on their respective interpretations of Vermont statutes, which is addressed in Section 3 above.

<u>Finding No. 11</u>
The remittance records of the Fiscal Agent and TSPs are extremely accurate. No further investigation is needed.

2. Reconciling Assessments and Remittances

TSPs should be remitting to the Fiscal Agent all VUSF receipts collected from subscribers, with the exception of allowable offsets for Lifeline credits and Lifeline administrative expenses. To study this issue, assessment and remittance records from the sampled TSPs were compared, differences between assessments and remittance amounts were identified, and explanations for such differences were sought from the TSPs. QSI also compared VUSF surcharges assessed by TSPs to the amounts collected for the purpose of determining the extent to which TSPs are collecting the VUSF amounts that are being assessed.

In response to data requests, TSPs provided information related to VUSF surcharges applied to customer invoices, collections from customers, and remittances to the Fiscal Agent. QSI analyzed this information to ascertain: (1) whether TSPs collected most, if not all, of the VUSF surcharges assessed to customers, and (2) remitted those monies to the Fiscal Agent. The results of this analysis demonstrated that assessments, receipts, and remittances were reported as expected for nine of the TSPs sampled. In most of these cases, reported uncollectible rates were low and consistent with expectations for the telecommunications industry. The TSPs typically reported remittance amounts to the Fiscal Agent which were equal to invoiced amounts less the average uncollectible rate for the company. In five cases, it was determined that the TSP likely *over*paid the VUSF (or remitted to the Fiscal Agent more than collected from customers). For example, one TSP provided information that indicates the company paid nearly $84,000 more into the VUSF than it collected in VUSF assessments from customers over a five year period. This TSP explained that it does not treat the VUSF as a "collect and remit" process, but instead calculates remittances and assessments/collections as two separate and distinct processes. In other words, the TSP calculates remittance amounts based on *billed* assessable revenue, not based on a "flow-through" of VUSF amounts collected from customers. This has resulted in remittance amounts that are greater than the VUSF surcharges collected from customers. Two other TSPs provided information showing that they paid into the VUSF about $81,000 and $64,000 more than they collected in VUSF surcharges from customers, respectively. In contrast, yet another two other TSPs provided information indicating they have underpaid the VUSF (or remitted less to the Fiscal Agent than collected from customers) by approximately $28,000 and $22,000, respectively, over the last five years. Finally, there is a prepaid CMRS company that makes remittances to the VUSF but does not collect VUSF surcharges from their prepaid subscribers. As such, a collection-to-remittance comparison could not be made for this TSP.

Finding No. 12
Based on interviews with the Fiscal Agent as well as a review of the remittance information available to the Fiscal Agent, QSI determined that the Fiscal Agent does not verify that a TSP's remittances match its actual VUSF collections from customers. The Fiscal Agent is not currently directed to perform this task nor does it currently have access to the data needed to easily determine whether or to what extent TSP remittances are more or less than VUSF collections from customers. While QSI has found that TSP remittances generally match collections from customers (and variances are sometimes in favor of the Fund), the PSB may desire to increase the level of oversight on this issue. In that case, a more specific carrier audit could be conducted, or revised reporting requirements may be in order. Based on QSI's analysis of the sampled TSPs, we do not recommend either course of action at this time.

3. Analyzing Timeliness of Remittances

Remittances to the VUSF are required to be made to the Fiscal Agent by the 15th of each month for the preceding month (unless the service provider is authorized to contribute on a quarterly or annual basis, or if the 15th falls on a holiday in which case the remittance is due the prior day). Two sources of data were reviewed to analyze the timeliness of remittances: (1) remittance data for the past five years, including remittance dates, provided by the TSPs, and (2) late payment charges data provided by the Fiscal Agent. The table below shows the number of remittance payments made after the 15th due date, as reported by the TSPs.

Table 20: Remittance Payments Made After the 15th Due Date for the Last 5 Years

Late Remittance Payments		
Telecom Service Provider ID No.	Number of Remittances Reported	Late Remittance Payments
TSP 1	54	0
TSP 2	60	0
TSP 3	25	1
TSP 4	58	0
TSP 5	58	0
TSP 6	45	0
TSP 7	54	4
TSP 8	84	23
TSP 9	32	3
TSP 10	58	2
TSP 11	50	1
TSP 12	5	0
TSP 13	56	3
TSP 14	5	0
TSP 15	60	2
TSP 16	71	1
TSP 17	36	1
TSP 18	60	0
TOTAL	**871**	**41**
		4.7%

Source: Telecom Service Provider remittance records.

The first column, "Service Provider," identifies the sampled TSP based on the generic notation "TSP 1", "TSP 2", etc. The second column, "Remittances Reported," shows the number of remittance payments reported by each TSP during the study period. This number varies by TSP because: (a) some TSPs provided remittance records for a longer time period than others and (b) some TSPs made remittance payments on a quarterly (rather than monthly) basis for certain time periods. The third column "Late Remittance Payments" shows the number of remittance payments that were submitted after the 15th due date according to the TSP remittance records.[53] Out of all the remittances reported by the sampled TSPs (871 in total) during the study period, 41 (or 4.7%) were submitted after the due date (or after the 15th of the following month). More than half of these late remittances are attributed to a single TSP. QSI sought an explanation from this TSP for these late payments and inquired about the company's controls to ensure that payments are made in a timely manner. The company's reply stated that it "recognizes its responsibility to make timely payments and has established a planning calendar to remind staff when the VT USF payments are due." The company further notes that since January 2009, the company has been late only five times and late no more than 2 business days.

53 The data used to populate this third column reflect the dates on which TSPs reported they made the remittance payments to the Fiscal Agent. In some cases, there is a lag between the date the TSP reported making the remittance payment and the date on which the remittance payment was deposited.

Based on the Fiscal Agent records, 4,836 VUSF remittance worksheets were submitted by TSPs during the five year period July 2007 through June 2012, and 468 (9.75%) were identified as being provided more than 15 days after the reporting period (*i.e.*, after the 15th of the following month). In addition, late payment charges assessed for remittances made after the due date are relatively small and have been decreasing in recent years. The following table shows the total late payment charges assessed by the Fiscal Agent for the most recent five fiscal years.

Table 21: Late Payment Charges Assessed for the Last 5 Years

Late Payment Charges ("LPCs")		
Fiscal Year Ending	Total LPCs	LPCs as % of Total Remittances
6/30/2008	$5,566	0.14%
6/30/2009	$4,556	0.08%
6/30/2010	$3,030	0.04%
6/30/2011	$2,180	0.05%
6/30/2012	$2,487	0.06%

Source: Fiscal Agent audited Profit and Loss Statements (accrual basis).

These late payment charges amount to 0.06% of total remittances in FY 2011/2012, and range from between 0.14% and 0.04% of total remittances in the previous four fiscal years.

Finding No. 13

Remittances are made in a timely manner. Exceptions are addressed through late payment charges, which have been a very small percentage of total remittances. A single company that at one time had difficulties making VUSF payments on time has put in place controls to address the situation and its performance in this regard has improved. No further action is needed.

4. *Comcast's Remittances on its Interconnected VoIP Service*

Because of the complicated corporate structure used by cable companies such as Comcast to provide digital voice service and the various services that comprise bundled packages, it is difficult to determine what portion of the company's revenue stream is subject to VUSF assessment and what portion is appropriately excluded. Consequently, QSI examined the corporate affiliate relationship between the Comcast CLEC, Comcast Phone of Vermont, LLC, and the provider of Interconnected VoIP service to retail customers, Comcast IP Phone II, LLC to ascertain whether Comcast has paid VUSF contributions based on its retail revenue rather than its wholesale revenue.

In the PSB's 2008 docket investigating the regulation of VoIP services, Comcast stated that it voluntarily pays into all state funds for telecommunications carriers, including state USF.[54] However, Comcast also stated that its CLEC, Comcast Phone of Vermont, is the entity that makes the payments to all state funds including the VUSF. Without further detail, it is easy to understand why someone would infer this to mean that remittances are based on wholesale revenue earned by the CLEC rather than the retail revenue earned by its affiliate.

QSI confirmed that Comcast's remittances are based on the retail revenue earned from its digital voice customers rather than on its wholesale revenue which is exempt from VUSF assessment.

[54] See Direct Testimony of David J. Kowolenko filed in Vermont Docket No. 7316, April 7, 2008, p. 20.

Section 5: Disbursements

In this final section of our report, we discuss VUSF disbursements. Specifically, 30 V.S.A. §7511 states that disbursements from the VUSF must be used only for the following:

(1) to support the VTRS (including the VTRS service, VTRS Outreach and VEDP,
(2) to support Vermont Lifeline program (including Lifeline credits and Lifeline administration costs),
(3) to support E911,
(4) to pay contractual costs of the Fiscal Agent, and
(5) to support high-cost areas.

The Fund supports VTRS, E911 and Fiscal Agent administration costs through ongoing disbursements. The Fund supports Lifeline by permitting TSPs that participate in the Lifeline program to offset Lifeline credits and Lifeline administration expenses from the amount these providers would otherwise owe in remittances. Recently in FY 2012/2013, the Fund supported service in high-cost areas of the State through a one-time disbursement to ILECs. There are also three other expenses of the Fund: bank fees, audit fees and miscellaneous expenses. The following table shows the amount for these disbursements/expenses for FY 2011/2012.

Table 22: Summary of VUSF Disbursements for FY 2011/2012

	VUSF Disbursements/Expenses FY 2011/2012 (ending 6/30/12)		
	Disbursement/Expense	Amount	% of Total
1	E911	$5,845,256	81.37%
2	Lifeline Credits	$790,621	11.01%
3	VTRS	$305,757	4.26%
4	Equipment Distribution	$74,871	1.04%
5	Lifeline Administration	$72,003	1.00%
6	Program Administration	$66,600	0.93%
7	Audit Fees	$14,500	0.20%
8	Bank Fees	$11,400	0.16%
9	Misc. Expenses	$2,133	0.03%
	TOTAL	$7,183,141	

Source: Fiscal Agent P&L Statements (accrual basis).

A. Disbursements for E911

The largest disbursement from the Fund is for E911, which comprises approximately 81.37% percent of total disbursements. The E911 budget is developed by the Vermont E911 Board and sent to the Vermont Legislature for review and approval. When approved, the Executive Director of the E911 Board notifies the CAPI Chief of the E911 budget, who then verifies that amount in the appropriations budget. The Fiscal Agent schedules monthly disbursements based on the approved E911 budget and then authorizes payments to the State Treasurer.[55] The E911 disbursements for the past five years are shown below.

Table 23: Summary of E911 Disbursements for 2007 - 2012

VUSF E911 Disbursements 2007 - 2012		Compared to FY 2011/2012 Amount
FY 2011/2012	$5,845,256	-
FY 2010/2011	$4,605,803	21.2%
FY 2009/2010	$5,486,653	6.1%
FY 2008/2009	$5,484,695	6.2%
FY 2007/2008	$4,180,053	28.5%

Source: Fiscal Agent P&L Statements (accrual basis).

The E911 disbursement in FY2011/2012 was the largest it has been in five years, and represents an increase of 21.2% from the preceding fiscal year and a 6.1% increase from the fiscal year before that.

B. Disbursements for Lifeline Credits

The second largest disbursement from the Fund is for Lifeline credits, which represented 11% of the total in FY 2011/2012. The budget for Lifeline is estimated by the CAPI Chief based on projected Lifeline enrollment. The actual Lifeline credit amounts disbursed depend on the number of customers that enroll in the Lifeline program. Lifeline costs vary by company depending on the number of subscribers they serve who are enrolled in the Lifeline program. The TSPs who participate in the Lifeline Credit program reduce their remittances to the Fiscal Agent by the amount of their Lifeline credits. Therefore, in most cases, the Lifeline support is not in the form of a "disbursement" (*i.e.,* it is not a cash transaction), but instead it is an offset to the remittances the Fiscal Agent would otherwise receive. The Fiscal Agent infrequently prepares disbursement requests for Lifeline support where a service provider's Lifeline offset exceeds the amount it otherwise owes in remittances to the Fiscal Agent. The amounts of Lifeline support for the past five years are shown below.

[55] 30 V.S.A. §7514.

Table 24: Summary of Lifeline Credits 2007 - 2012

VUSF Lifeline Credits 2007 - 2012		Compared to FY 2011/2012 Amount
FY 2011/2012	$790,621	-
FY 2010/2011	$851,023	-7.6%
FY 2009/2010	$945,255	-19.6%
FY 2008/2009	$1,080,766	-36.7%
FY 2007/2008	$1,168,612	-47.8%

Source: Fiscal Agent P&L Statements (accrual basis).

Lifeline credits have decreased each year for the past five years. Lifeline credits decreased by 7.6% in FY 2011/2012 compared to the preceding fiscal year and were 19.6% lower than the fiscal year before that. These amounts reflect Lifeline credits for ILECs, who, until recently, were the only service providers compensated for Lifeline credits. Recently, in Vermont, some CMRS providers were designated as ETCs[56] and may soon begin receiving Federal compensation for Lifeline credits.

C. Disbursements for VTRS and VTRS Outreach

The third largest disbursement from the Fund is for VTRS and VTRS Outreach, which represented 4.26% of the total in FY 2011/2012. The budgets for VTRS and VTRS Outreach are determined by the VTRS contract between the VTRS service provider (Sprint) and PSD, and it is based on usage of VTRS. VTRS Outreach is a separate line item, but is included within the VTRS invoice. The PSB receives detailed invoices from Sprint and forwards them to the CAPI Chief for review and approval to pay. The CAPI Chief then forwards an invoice summary to the Fiscal Agent for payment. The Fiscal Agent then authorizes disbursement to the State Treasurer to reimburse the State for payment to the vendor.[57] The disbursements for VTRS and VTRS Outreach for the past five years are shown below.

[56] See, *e.g.*, Vermont PSB Docket No. 7817 Petition of Tracfone Wireless, Inc., for designation as an Eligible Telecommunications Carrier for the limited purpose of offering Lifeline Service to qualifying households, Order dated August 15, 2012.

[57] 30 V.S.A. §7512.

Table 25: Summary of VTRS Disbursements 2007 - 2012

VUSF VTRS Disbursements 2007 - 2012		Compared to FY 2011/2012 Amount
FY 2011/2012	$305,757	-
FY 2010/2011	$327,378	-7.1%
FY 2009/2010	$307,780	-0.7%
FY 2008/2009	$345,421	-13.0%
FY 2007/2008	$321,816	-5.3%

Source: Fiscal Agent P&L Statements (accrual basis).

The VTRS/VTRS Outreach disbursement for FY 2011/2012 was the lowest it has been in the last five years, representing a decrease of 7.1% from the preceding fiscal year and a decrease of 0.7% from the fiscal year before that.

D. Disbursements for VEDP

The fourth largest disbursement from the Fund is for the VEDP, which makes up 1% of the total. The VEDP budget is $75,000 per year. The VEDP is managed by the Vermont Center for the Deaf and Hard-of Hearing, Inc. in conjunction with the CAPI Division at the PSD. The CAPI Chief receives the VEDP invoices and then forwards them to the Fiscal Agent, which authorizes VEDP disbursements to the State Treasurer. The VEDP disbursements for the past five years are shown below.

Table 26: Summary of VEDP Disbursements 2007 - 2012

VUSF VEDP Disbursements 2007 - 2012		Compared to FY 2011/2012 Amount
FY 2011/2012	$74,871	-
FY 2010/2011	$74,842	0.0%
FY 2009/2010	$75,079	-0.3%
FY 2008/2009	$71,364	4.7%
FY 2007/2008	$73,059	2.4%

Source: Fiscal Agent P&L Statements (accrual basis).

The VEDP disbursement in FY 2011/2012 was virtually the same as the amount for the preceding fiscal year and a slight decrease from the fiscal year before that. The stable VEDP amounts reflect the fact that the annual VEDP budget is set at $75,000.

E. Disbursements for Fiscal Agent Administration

The fifth largest disbursement from the Fund is to pay the contractual costs for the Fiscal Agent's administration of the Fund, which makes up 0.93% of the total. This amount is dictated by the Fiscal Agent's contract with the PSB. The Fiscal Agent issues monthly invoices to itself and authorizes their payment. The program administration disbursements for the past five years are shown below.

Table 27: Summary of Program Administration Fees 2007 - 2012

VUSF Program Admin. Disbursements 2007 - 2012		Compared to FY 2011/2012 Amount
FY 2011/2012	$66,600	-
FY 2010/2011	$69,600	-4.5%
FY 2009/2010	$69,600	-4.5%
FY 2008/2009	$78,000	-17.1%
FY 2007/2008	$79,799	-19.8%

Source: Fiscal Agent P&L Statements (accrual basis).

The program administration disbursement in FY 2011/2012 was the smallest it has been in five years, and represents a decrease of 4.5% from the two preceding fiscal years.

F. Disbursements for Lifeline Administration

Lifeline administration support, like Lifeline credit support, is provided in the form of an offset to remittances instead of a cash transaction. The support for Lifeline administration for the past five years is shown below.

Table 28: VUSF Lifeline Administration Support 2007 - 2012

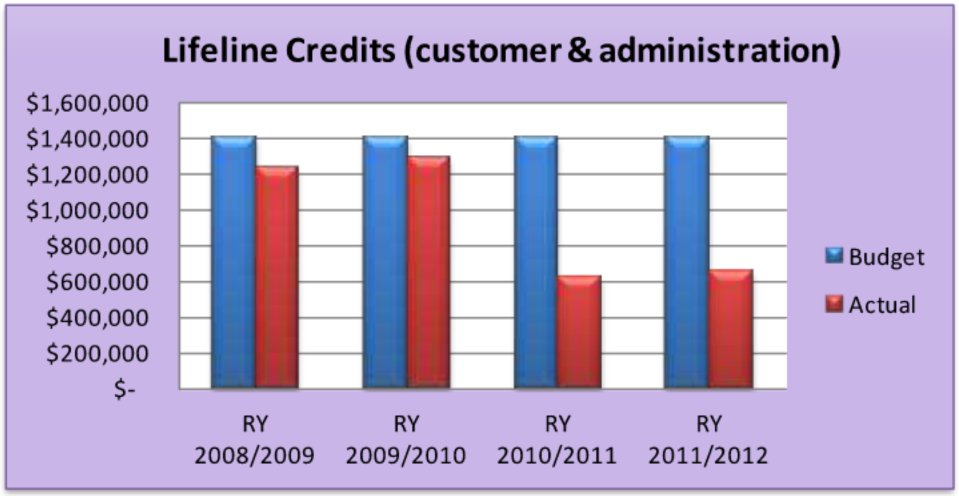
VUSF Lifeline Admin. Support 2007 - 2012		Compared to FY 2011/2012 Amount
FY 2011/2012	$72,003	-
FY 2010/2011	$121,012	-68.1%
FY 2009/2010	$105,227	-46.1%
FY 2008/2009	$178,536	-148.0%
FY 2007/2008	$94,952	-31.9%

Source: Fiscal Agent P&L Statements (accrual basis).

The support for Lifeline administrative expenses dropped dramatically in FY 2011/2012, decreasing by 68% compared to the prior fiscal year. This decrease is primarily due to adjustments related to FairPoint's requests for retroactive reimbursement of lifeline administration expenses. Following the cutover from Verizon's billing system to FairPoint's billing system and its bankruptcy petition in October 2009, FairPoint experienced numerous difficulties in reporting its claims for Lifeline administration expense reimbursement. During that time, FairPoint did not submit claims for Lifeline administration expenses for certain months but then submitted retroactive claims for reimbursement including amounts that were not eligible for reimbursement. Extensive correspondence between the Fiscal Agent, the PSB, and FairPoint resulted in adjustments to amounts FairPoint was allowed to offset against its VUSF assessment liability.

When combined with the Lifeline customer credits taken by the TSPs, total Lifeline customer and administration credits compared to budgeted amounts were as follows for the last four years.

Chart 12: Lifeline Credits (RY 2008/2009 through RY 2011/2012)



As noted above, actual Lifeline credits were significantly lower than the amounts budgeted in rate years 2010/2011 and 2011/2012 due to delays in, and adjustments to, FairPoint's requests for customer and administration expense credits caused by issues with its billing system following the cutover from Verizon's billing system.

QSI found no deficiencies in the VUSF disbursement process and, thus, makes no recommendations for improvement.

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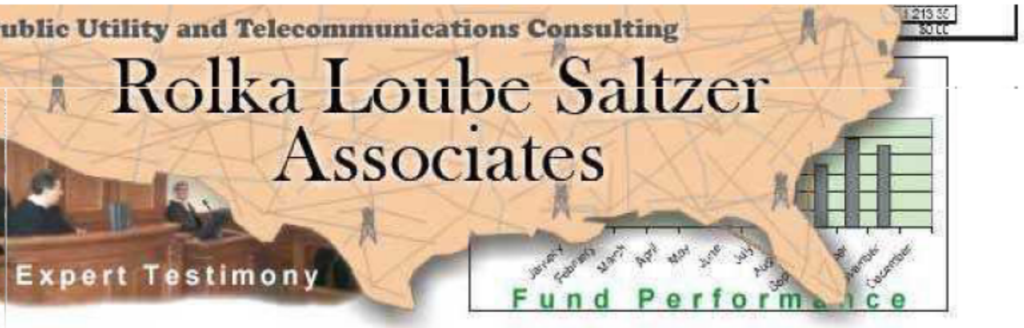
APPENDIX A

LIST OF PSB-ORDERED VUSF ASSESSMENT RATES

QSI VUSF Audit Report - Appendix A



Vermont Fund Administration

In 1994, the State of Vermont established its first state-wide Universal Service Fund. The purpose of the Vermont Universal Service Fund (VTUSF) is to support the Vermont Telecommunications Relay Services (VTTRS), telephone Lifeline Assistance and the development of state-wide enhanced Emergency 911 service. Vermont law also provides that in the future, pending additional action by the legislature, the fund may be used to support telephone service in high-cost areas of Vermont.

VTUSF Assessment Rates	
Time Period	**Rate**
Jul 2006 - Aug 2008	1.25%
Sep 2008 - Aug 2009	1.70%
Sep 2009 - Aug 2010	2.00%
Sep 2010 - Aug 2011	1.35%
Sep 2011 - Aug 2012	1.60%
Sep 2012 - Aug 2013	1.82%

The Vermont State Act (No. 197) of 1994 requires all telecommunications carriers offering services to the citizens of Vermont, both intrastate and interstate, to assess a universal service charge, effective October 1, 1994, for retail telecommunications service provided and/or billed to a Vermont address.

Rolka Loube Saltzer Associates (fka Rhoads & Sinon Group LLC) was selected by the Vermont Public Service Board (VTPSB) to serve as the Administrator of the VTUSF as of July 1, 2006. As the Administrator, we will perform all of the VTUSF implementation, management and administration functions.

- Letter of Introduction and Administration Change (Adobe pdf file)
- Assigned ID Code and Filing Frequency (by Company Name) (Adobe pdf file)
- July 13, 2010 Order setting 1.35% assessment rate for Sep 1, 2010 - Aug 31, 2011
- July 14th, 2011 Order setting 1.60% assessment rate for Sep 1, 2011 - Aug 31, 2012
- July 12th, 2012 Order setting 1.82% assessment rate for Sep 1, 2012 - Aug 31, 2013
- The filing schedule can be found within the filing instructions listed below

Please see Vermont Statutes Title 30 V.S.A. Chapter 88 for additional Information.

Note that when you open the Enhanced Version of a worksheet, you may get prompts about macro security and/or query refresh. If you select "Enable", you will have access to all functionality available to assist you in completing the worksheet. Refer to the instructions. If you don't get a prompt about enabling macros, your macro security may be set at Very High. If so, or if you choose "Disable macros", the button available to assist you in sending the report to us via email will not work.		
Reporting Revenues Billed for Periods	Filing Instructions	Worksheet ("Carrier Revenue Report")
July 2012 - June 2013	Adobe PDF file	Enhanced Version: MS Excel File#

QSI VUSF Audit Report - Appendix A

		Manual Version: Adobe PDF file
July 2011 - June 2012	Adobe PDF file	Enhanced Version: MS Excel File# Manual Version: Adobe PDF file
July 2010 - June 2011	Adobe PDF file	Enhanced Version: MS Excel File# Manual Version: Adobe PDF file

For periods starting prior to July 1, 2010, or if you have difficulty with the above links, please contact us by phone or email.

These worksheets are compatible with Excel 2002(XP), 2003, 2007(Vista) and 2010

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APPENDIX B

QSI Consulting's Study Methods

QSI CONSULTING'S STUDY METHODS	
Project Kick-Off & Management	QSI met with DPS Staff to finalize the work plan, gain a better understanding of the historical background of the VUSF and the DPS's study objectives, and discuss the intended approach. QSI also kept in regular contact with DPS personnel to coordinate project activities and provide progress reports. QSI provided drafts of its data requests to DPS Staff for review and approval before they were issued, and QSI coordinated with DPS Staff when defining certain parameters of the study such as study period (which was established as five fiscal years) and sample of telecommunications service providers (discussed below).
Data Requests to Fiscal Agent	QSI developed data requests for the Fiscal Agent. Rolka Loube Saltzer Associates ("RLSA") has served as the VUSF's Fiscal Agent since 2006. The data requests developed for RLSA requested information about contributions to and disbursements from the VUSF, including financial statements (*e.g.*, balance sheets, income statements, statement of cash flows, general ledgers, profit/loss statements), remittance records, receipts/disbursements records, and reports (*e.g.*, fund performance reports, statement of accounts reports, delinquency reports, Lifeline Program reports). These data requests also requested information about: the Fiscal Agent's policies and procedures used for administering the Fund, internal and external audit reports, information about the VUSF forecasting process, and information about contributing service providers. In total, four complete sets of data requests were issued to the Fiscal Agent as well as numerous follow-up requests. QSI received and reviewed the Fiscal Agent's responses to these data requests and incorporated them into QSI's analyses.

QSI CONSULTING'S STUDY METHODS	
Data Requests to Telecommunications Service Providers	QSI developed data requests for TSPs. The data request that was developed for TSPs requested assessment records, collection records, remittance records, information about services provided in Vermont and services excluded from VUSF assessment, sample invoices, and information to verify calculation of the VUSF charge. QSI then selected a sample of TSPs to which the data request was sent. With more than 160 companies contributing to the Fund, seeking this information from all contributors would be time and cost prohibitive. Based on the remittance data provided by the Fiscal Agent, QSI ranked the TSP contributors to the Fund in order of the size of their annual remittance amount from largest to smallest. This analysis showed that the top 20 largest TSP contributors to the Fund (in terms of remittances) represent more than 93% of the total remittances during Fiscal Year ending June 30, 2012 ("FY 2011/2012"). These 20 TSP contributors include a cross-section of the different types of TSPs, including ILECs, wireless providers, competitive telecommunications companies ("CTCs"), and Voice over Internet Protocol ("VoIP") providers. This sample list also includes FairPoint's wholesale performance assurance penalty payments, which have been a relatively large Fund revenue source in recent years. The "Top 20" sample list is shown below. The data request was submitted by DPS Staff on behalf of QSI to this "Top 20" sample list of TSP contributors. All TSPs in the sample responded to the data request, except two: (i) CTC Communications Corp. d/b/a ONE Communications and (ii) PAETEC Communications, Inc.[1] One service provider – Global Crossing – provided data along with its affiliates but was not in the original sample.[2] In total, 18 TSPs responded to the initial data request, and those 18 TSPs represent more than 91% of the total remittances to the Fund in FY 2011/2012. A table showing the responding TSPs is provided below. QSI received and reviewed responses to data requests, and issued follow-up data requests as needed to fully understand the answers and documentation provided.

[1] These two TSPs represent 2% of the total remittances in FY 2011/2012.

[2] QSI's initial sample included Level 3 and Telcove. These two companies are affiliated with Global Crossing and responses to the data request were provided for all three companies.

QSI CONSULTING'S STUDY METHODS	
Interviews	QSI conducted interviews of personnel that play a role in forecasting and managing the VUSF. QSI interviewed David Rolka, the President of RLSA and the person responsible for overseeing ongoing operations and all aspects of administration of the VUSF, a number of times. These interviews proved useful in better understanding RLSA policies and procedures for administering the VUSF as well as its reports and financial statements, and gathering supporting documentation for the study. QSI also interviewed the PSB Utilities Analyst assigned to VUSF administration and the Chief of the Consumer Affairs and Public Information ("CAPI") Division at the DPS to fully understand the VUSF budgeting and rate-setting processes. QSI then issued follow-up data requests to the PSB and DPS representatives to obtain clarification or documentation supporting calculations used in the budget process. QSI also conducted interviews of telecommunications service provider personnel responsible for the collection and remittance of VUSF charges in order to better understand TSP responses to data requests.
Analysis	Based on data and documentation collected, QSI analyzed the primary functions of the VUSF: (1) assessment, (2) collection, (3) remittance, (4) disbursement, and (5) administration. QSI examined: whether VUSF assessments were made correctly and accurately (What assessment rate was applied and to what services?); whether VUSF charges were collected properly (Is a line item charged and is it calculated and labeled accurately?); whether remittances were made in a timely and accurate manner (Are remittances made by the 15th of each month?); and whether the VUSF is being administered and disbursements made in accordance with applicable requirements (Are VUSF funds disbursed only to the intended recipients and is the Fund managed in a reasonable manner?) QSI also examined the available data to identify trends in VUSF remittances and disbursements over time. QSI's analyses were performed with an eye toward identifying ways in which future reporting on the VUSF can be clearly understood by a legislative audience. QSI also examined the actual versus budget reconciliation process to identify the causes of variances over the last four years and to recommend improvements to the process.
Report	QSI developed this report to document the study performed, the results and findings of the study, as well as recommendations.

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QSI consulting, inc.

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APPENDIX C

DETAILED RECONCILIATION OF BUDGET TO ACTUAL RESULTS

RECONCILIATION OF VUSF BUDGET TO ACTUAL

BASED ON RATE YEAR CALENDAR (SEPTEMBER 1 - AUGUST 31)

(Actual Results are calculated as follows: (1) Fiscal YTD as of June 30th in current calendar year - (2) Fiscal YTD as of August 31st in prior calendar year + (3) Fiscal YTD as of August 31st in current calendar year)

SEPTEMBER 2008 - AUGUST 2009

DESCRIPTION	OPENING BALANCE	VUSF RECEIPTS					VUSF DISBURSEMENTS	CLOSING BALANCE
	(A)	(B)	(C)	(D) = (B) - (C)	(E)	(F) = (D) - (E)	(G)	(H) = (A) + (D) - (G)
		VUSF RECEIPTS BEFORE LIFELINE CREDITS	LIFELINE CREDITS (For Customers and Administration Expenses)	RECEIPTS NET OF LIFELINE CREDITS	FAIRPOINT PERFORMANCE ASSURANCE PLAN PAYMENTS	NET RECEIPTS FROM VUSF CONTRIBUTIONS AND INTEREST		
PSB-approved VUSF Budget	$ 1,013,693	$ 7,360,328	$ 1,401,780	$ 5,958,548	$ -	$ 5,958,548	$ 6,062,164	$ 910,077
Actual (per VUSF Fund Performance Reports)	$ 787,201	$ 7,024,908	$ 1,242,020	$ 5,782,887	$ -	$ 5,782,887	$ 6,013,372	$ 556,717
Difference	$ (226,492)	$ (335,421)	$ (159,760)	$ (175,661)	$ -	$ (175,661)	$ (48,792)	$ (353,360)
Primary Reason for Differences	PSB-budget opening balance based on Fiscal Agent FY 2009 forecast (8 months actual / 4 months projected).	**Receipts Greater than Budget:** VoIP contract - $10,000 Unbudgeted misc. - $14,000 **Receipts Less than Budget:** Assessments **before** Lifeline credits - ($320,000) Interest income - ($39,000)	**Credits Greater than Budget:** Administration - $19,000 **Credits Less than Budget:** Lifeline benefit - ($179,000)	**<=== Receipts variance explanations ===>**	N/A - Payments did not begin yet.	**Net Receipts Greater than Budget:** VoIP contract - $10,000 Unbudgeted misc. - $14,000 **Net Receipts Less than Budget:** Carrier remittances **after** Lifeline credits - ($160,000) Interest income - ($39,000)	**Expenses Less than Budget:** VTRS and VTRS Outreach - ($69,000) Equipment - ($800) Audit fees - ($8,000) Administration - ($3,000) **Expenses Greater than Budget:** Unbudgeted misc. - $32,000	**Summary of Variance** Beg. Balance less than budget - ($226,000) Net Receipts less than budget - ($176,000) Disbursements less than budget - $49,000 **Ending Balance less than budget - ($353,000)**

SEPTEMBER 2009 - AUGUST 2010

DESCRIPTION	OPENING BALANCE	VUSF RECEIPTS					VUSF DISBURSEMENTS	CLOSING BALANCE
	(A)	(B)	(C)	(D) = (B) - (C)	(E)	(F) = (D) - (E)	(G)	(H) = (A) + (D) - (G)
		VUSF RECEIPTS BEFORE LIFELINE CREDITS	LIFELINE CREDITS (For Customers and Administration Expenses)	RECEIPTS NET OF LIFELINE CREDITS	FAIRPOINT PERFORMANCE ASSURANCE PLAN PAYMENTS	NET RECEIPTS FROM VUSF CONTRIBUTIONS AND INTEREST		
PSB-approved VUSF Budget	$ 236,034	$ 7,962,357	$ 1,401,780	$ 6,560,577	$ -	$ 6,560,577	$ 6,044,346	$ 752,265
Actual (per VUSF Fund Performance Reports)	$ 556,717	$ 9,060,409	$ 1,296,112	$ 7,764,297	$ 933,521	$ 6,830,776	$ 5,865,330	$ 2,455,684
Difference	$ 320,683	$ 1,098,052	$ (105,668)	$ 1,203,720	$ 933,521	$ 270,199	$ (179,016)	$ 1,703,419
Primary Reason for Differences	PSB-budget opening balance based on Fiscal Agent FY 2010 forecast (9 months actual / 3 months projected).	**Receipts Greater than Budget:** Assessments **before** Lifeline credits - $178,000 FairPoint PAP - $933,000 VoIP contract - $5,000 Unbudgeted misc. - $1,000 **Receipts Less than Budget:** Interest income - ($19,000)	**Credits Less than Budget:** Lifeline benefit - $101,000 Administration - $5,000	**<=== Receipts variance explanations ===>**	Budget excludes FairPoint Peformance Assurance Plan payments	**Net Receipts Greater than Budget:** Carrier remittances **after** Lifeline credits - $283,000 VoIP contract - $5,000 Unbudgeted misc. - $1,000 **Net Receipts Less than Budget:** Interest income - ($19,000)	**Expenses Less than Budget:** E911 - ($147,000) VTRS and VTRS Outreach - ($45,000) **Expenses Greater than Budget:** Equipment - $9,000 Audit fees - $3,000 Administration - $1,000	**Summary of Variance** Beg. Balance greater than budget - $320,000 Receipts greater than budget - $1,204,000 Disbursements less than budget - $179,000 **Ending Balance greater than budget - $1,703,000**

RECONCILIATION OF VUSF BUDGET TO ACTUAL

BASED ON RATE YEAR CALENDAR (SEPTEMBER 1 - AUGUST 31)

(Actual Results are calculated as follows: (1) Fiscal YTD as of June 30th in current calendar year - (2) Fiscal YTD as of August 31st in prior calendar year + (3) Fiscal YTD as of August 31st in current calendar year)

SEPTEMBER 2010 - AUGUST 2011

DESCRIPTION	OPENING BALANCE	VUSF RECEIPTS					VUSF DISBURSEMENTS	CLOSING BALANCE
	(A)	(B)	(C)	(D) = (B) - (C)	(E)	(F) = (D) - (E)	(G)	(H) = (A) + (D) - (G)
		VUSF RECEIPTS BEFORE LIFELINE CREDITS	LIFELINE CREDITS (For Customers and Administration Expenses)	RECEIPTS NET OF LIFELINE CREDITS	FAIRPOINT PERFORMANCE ASSURANCE PLAN PAYMENTS	NET RECEIPTS FROM VUSF CONTRIBUTIONS AND INTEREST		
PSB-approved VUSF Budget	$ 1,891,000	$ 5,644,547	$ 1,401,780	$ 4,242,767	$ -	$ 4,242,767	$ 5,293,636	$ 840,131
Actual (per VUSF Fund Performance Reports)	$ 2,455,684	$ 6,651,376	$ 632,405	$ 6,018,970	$ 1,701,836	$ 4,317,134	$ 5,109,706	$ 3,364,948
Difference	$ 564,684	$ 1,006,828	$ (769,375)	$ 1,776,203	$ 1,701,836	$ 74,367	$ (183,930)	$ 2,524,817
Primary Reason for Differences	PSB-budget opening balance based on Fiscal Agent FY 2011 forecast; could not verify projected opening balance.	**Receipts Greater than Budget:** FairPoint PAP - $1,702,000 VoIP contract - $6,000 Unbudgeted misc. - $4,000 **Receipts Less than Budget:** Assessments before Lifeline credits - ($636,000) Interest income - ($69,000)	**Credits Less than Budget:** Lifeline benefit - $607,000 Administration - $162,000 (Primarily due to FairPoint's delayed and fluctuating requests for Lifeline and Lifeline Administration credits.)	<=== **Receipts variance explanations** ===>	Budget excludes FairPoint Peformance Assurance Plan payments	**Net Receipts Greater than Budget:** Carrier remittances **after** Lifeline credits - $134,000 VoIP contract - $6,000 Unbudgeted misc. - $4,000 **Net Receipts Less than Budget:** Interest income - ($69,000)	**Expenses Less than Budget:** VTRS and VTRS Outreach - ($168,000) Equipment - ($22,000) Administration - ($1,000) **Expenses Greater than Budget:** Unbudgeted misc. - $7,000	**Summary of Variance** Beg. Balance greater than budget - $565,000 Receipts greater than budget - $1,776,000 Disbursements less than budget - $184,000 **Ending Balance greater than budget - $2,525,000**

SEPTEMBER 2011 - AUGUST 2012

DESCRIPTION	OPENING BALANCE	VUSF RECEIPTS					VUSF DISBURSEMENTS	CLOSING BALANCE
	(A)	(B)	(C)	(D) = (B) - (C)	(E)	(F) = (D) - (E)	(G)	(H) = (A) + (D) - (G)
		VUSF RECEIPTS BEFORE LIFELINE CREDITS	LIFELINE CREDITS (For Customers and Administration Expenses)	RECEIPTS NET OF LIFELINE CREDITS	FAIRPOINT PERFORMANCE ASSURANCE PLAN PAYMENTS	NET RECEIPTS FROM VUSF CONTRIBUTIONS AND INTEREST		
PSB-approved VUSF Budget	$ 2,871,082	$ 5,621,183	$ 1,401,780	$ 4,219,403	$ -	$ 4,219,403	$ 6,549,657	$ 540,828
Actual (per VUSF Fund Performance Reports)	$ 3,364,948	$ 5,716,721	$ 655,433	$ 5,061,288	$ 469,139	$ 4,592,149	$ 6,609,770	$ 1,816,467
Difference	$ 493,866	$ 95,538	$ (746,347)	$ 841,886	$ 469,139	$ 372,747	$ 60,113	$ 1,275,639
Primary Reason for Differences	PSB-budget opening balance based on Fiscal Agent FY 2012 forecast; could not verify projected opening balance.	**Receipts Greater than Budget:** FairPoint PAP - $469,000 VoIP contract - $7,000 **Receipts Less than Budget:** Assessments before Lifeline credits - ($299,000) Interest income - ($82,000)	**Credits Less than Budget:** Lifeline benefit - $509,000 Administration - $237,000 (Primarily due to FairPoint's delayed and fluctuating requests for Lifeline and Lifeline Administration credits.)	<=== **Receipts variance explanations** ===>	Budget excludes FairPoint Peformance Assurance Plan payments	**Net Receipts Greater than Budget:** Carrier remittances **after** Lifeline credits - $447,000 VoIP contract - $7,000 **Net Receipts Less than Budget:** Interest income - ($82,000)	**Expenses Less than Budget:** VTRS and VTRS Outreach - ($225,000) Audit fees - ($6,000) **Expenses Greater than Budget:** E911 - $284,000 Equipment - $6,000 Unbudgeted misc. - $1,000	**Summary of Variance** Beg. Balance greater than budget - $494,000 Receipts greater than budget - $842,000 Disbursements greater than budget - ($60,000) **Ending Balance greater than budget - $1,276,000**

RECONCILIATION OF VUSF BUDGET TO ACTUAL

BASED ON RATE YEAR CALENDAR (SEPTEMBER 1 - AUGUST 31)

(Actual Results are calculated as follows: (1) Fiscal YTD as of June 30th in current calendar year - (2) Fiscal YTD as of August 31st in prior calendar year + (3) Fiscal YTD as of August 31st in current calendar year)

SEPTEMBER 2012 - AUGUST 2013								
DESCRIPTION	OPENING BALANCE	VUSF RECEIPTS					VUSF DISBURSEMENTS	CLOSING BALANCE
	(A)	(B)	(C)	(D) = (B) - (C)	(E)	(F) = (D) - (E)	(G)	(H) = (A) + (D) - (G)
		VUSF RECEIPTS BEFORE LIFELINE CREDITS	LIFELINE CREDITS (For Customers and Administration Expenses)	RECEIPTS NET OF LIFELINE CREDITS	FAIRPOINT PERFORMANCE ASSURANCE PLAN PAYMENTS	NET RECEIPTS FROM VUSF CONTRIBUTIONS AND INTEREST		
PSB-approved VUSF Budget	$ 1,000,000	$ 6,522,243	$ 1,278,656	$ 5,243,587	$ -	$ 5,243,587	$ 5,748,821	$ 494,766
Actual (per VUSF Fund Performance Reports)	$ 1,816,467	N/A - RATE YEAR NOT YET COMPLETE						
Difference	$ 816,467							
Primary Reason for Differences	Target balance required per SB 180. There was a delay in the High Cost Fund distribution of funds in excess of $1,000,000 until December 2012 ($755,000).	N/A	N/A	<=== Receipts variance explanations ===>	N/A	N/A	N/A	N/A

ASSESSMENT OF THE VERMONT UNIVERSAL SERVICE FUND

AUDIT REPORT OF

QSI
consulting, inc.

MAY 2013

APPENDIX D

"CARRIER REVENUE REPORT & INVOICE" WORKSHEET
AND INSTRUCTIONS

State of Vermont - Universal Service Fund

Fiscal Year 2012/2013 Carrier Revenue Report & Invoice

Please read the instructions and complete the report using MS Excel at http://www.r-l-s-a.com/vermont/

Select Month / Quarter / Annual

Carrier

1. VTUSF Assigned ID: ______ Click here to lookup the ID
2. Carrier Name: ______
3. Carrier Address: ______
4. City, State, Zip Code: ______
5. Carrier Telephone #: ______

Contact

6. Contact Name: ______
7. Street Address: ______
8. City, State, Zip Code: ______
9. Contact Phone #(s): ______
10. E-Mail Address: ______

Month	Monthly due date	Quarter due date	Annual due date
JUL 2012	due by 8/15/12	due by 10/15/12	due by 7/15/13
AUG 2012	due by 9/14/12		
SEP 2012	due by 10/15/12		
OCT 2012	due by 11/15/12	due by 1/15/13	
NOV 2012	due by 12/14/12		
DEC 2012	due by 1/15/13		
JAN 2013	due by 2/15/13	due by 4/15/13	
FEB 2013	due by 3/15/13		
MAR 2013	due by 4/15/13		
APR 2013	due by 5/15/13	due by 7/15/13	
MAY 2013	due by 6/14/13		
JUN 2013	due by 7/15/13		

☐ This report replaces a previous submission

Billed Retail Revenues

Retail revenues are derived from the provision of intrastate, interstate & international services to end users.

		July - August 2012		Sep 2012 - Jun 2013
11. Local Exchange	(See instructions for definitions)			
12. End User SLCs (Federal)				
13. Enhanced Services				
14. Private Lines				
15. Toll Telephone Service (originating, terminating or billed to VT address)				
16. Operator Service				
17. Directory Assistance				
18. Pay Telephone (non-coin revenues)				
19. Mobile, Cellular, PCS				
20. 2-Way Cable TV				
21. Total Billed Retail Revenues Subject to Vermont USF Assessment	Sum of Lines 11 thru 20 =			
Accrual Accounting 22. Applicable Assessment Rate	Find Rates at http://www.r-l-s-a.com/vermont/	X	X	
23. Assessment Based on Billed Retail Revenues	Line 21 multiplied by line 22 =		+	
24. Uncollectible Assessments			-	
25. Total Assessments Expected to be Collected	Sum of amounts on Line 23 minus line 24 =			
OR	Assessments can be consistently reported using an accrual or cash accounting method			
Cash 26. Assessments Received from Vermont Retail Customers				
27. Assessments for Period	(Enter accrual total from line 25 **OR** cash assessments collected from line 26.) Line 25 **OR** line 26 =			

Adjustments

28. Outstanding Account (Credit) or Debt			+	
29. Lifeline Credits	____ # Lifeline customers X ____ Avg credit per cust. =		-	
30. Allowable Lifeline Administrative Expenses			-	
31. Gross Total	Line 27 plus Line 28 minus Line 29 minus Line 30 =			
Assessments not received on or before the scheduled date are subject to a one and a half percent (1.5%) penalty per monthly cycle (18% cumulative APR), e.g. if the amount due is $200 and is received on the 19th, the penalty will be $3. If the amount due is $5,000, then a $75 penalty is charged per monthly cycle.				
32. Estimated Late Payment Charge			+	
33. Total Remittance Due (Payments can be made by check, EFT or by ACH)	Line 31 plus Line 32=			

Under penalties as provided by law, submission of this Revenue Report & Invoice has been authorized by the above named company, and to the best of my knowledge and belief it is true, correct and complete. I further acknowledge the Administrator's authority to request additional supporting information as may be necessary.

34. ______ Date ______ Authorized Signor's Name ______ Authorized Signor's Signature ______ Signor's Title

VTUSF Administration
Rolka Loube Saltzer Associates (Tax ID:30-0410008)
E-Mail: efile@r-l-s-a.com
http://www.r-l-s-a.com/vermont/
Phone: 717-237-6762
Fax: 888-811-6920

Send by US Mail to
VTUSF
P.O. Box 64777
Baltimore, MD 21264-4777
or file via fax
or with prior approval, send by email

or send by courier to
VTUSF
M&T Bank Lockbox 64777
1800 Washington Blvd., 8th floor
Baltimore, MD 21230
phone (410) 347-6245

VERMONT UNIVERSAL SERVICE FUND

INSTRUCTIONS TO COMPLETE THE FISCAL YEAR 2012/2013 CARRIER REVENUE REPORT & INVOICE

I. Filing Requirements and General Instructions

A. Introduction

In 1994, the State of Vermont established its first state-wide Universal Service Fund. The purpose of the Vermont Universal Service Fund (VTUSF) is to support the Vermont Telecommunications Relay Services (VTTRS), telephone Lifeline Assistance and the development of state-wide enhanced Emergency 911 service. Vermont law also provides that in the future, pending additional action by the legislature, the fund may be used to support telephone service in high-cost areas. Vermont statute requires all telecommunications carriers to assess a universal service charge for retail telecommunications services, both intrastate and interstate, provided and/or billed to a Vermont address. The VTUSF charge must be included on customer bills at the rate set from time to time by the Vermont Public Service Board. The statute, Vermont Statute Title 30 V.S.A. Chapter 88, is available at www.leg.state.vt.us/statutes/fullchapter.cfm?Title=30&Chapter=088.

Rolka Loube Saltzer Associates (RLSA) has been selected by the Vermont Public Service Board (VTPSB) to serve as the "Fiscal Agent" or Administrator of the VTUSF. As the Administrator, RLSA will perform all of the VTUSF implementation, management and administration functions. The current VTUSF rate and filing materials can be found on the RLSA website at http://www.r-l-s-a.com/vermont/.

B. Who Must File

Vermont statute requires all local exchange carriers, interexchange carriers, cellular companies, competitive access providers, operator service providers, customer-owned pay telephone providers and resellers to collect and remit the VTUSF charge. Providers are only required to collect and remit if the provider has a certificate of public good from the VTPSB to offer intrastate services or if the provider provides only interstate service and is authorized by the Federal Communication Commission to offer those services.

C. When to File

All reporting carriers will be assigned by RLSA to a monthly, quarterly or annual reporting cycle. All worksheets and remittances comprising all VTUSF collections must be remitted to and **received by RLSA** (see Attachment B) **on or before the 15th day of each month** (unless falling on a weekend or holiday, in which case, the filing is due the preceding business date. See Attachment A "FY2012/2013 VTUSF Reporting Schedule" for the schedule). Reports and instructions can be found on the RLSA website at www.r-l-s-a.com/vermont/.

VERMONT UNIVERSAL SERVICE FUND
FISCAL YEAR 2012/2013 REVENUE REPORT INSTRUCTIONS

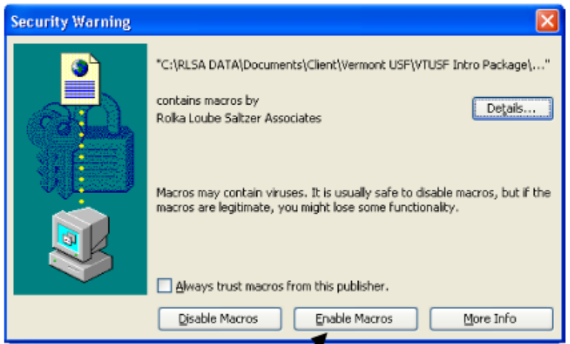
D. Compliance

Carriers failing to submit a VTUSF Revenue Report and corresponding assessment in a timely manner and according to the assigned filing schedule, are subject to a one and half percent (1.5%) monthly late payment fee (effective 18% APR). See Vermont Statutes Annotated, Title 30 V.S.A. Chapter 88 §7525. Notice of late payment charges will be incorporated into statements of account distributed via e-mail (or by US mail when a valid email address is not provided) to the contacts designated by the carrier to receive such notices. Failure of a carrier to participate in the VTUSF mechanism and pay an assessed contribution will be considered a violation of Vermont law.

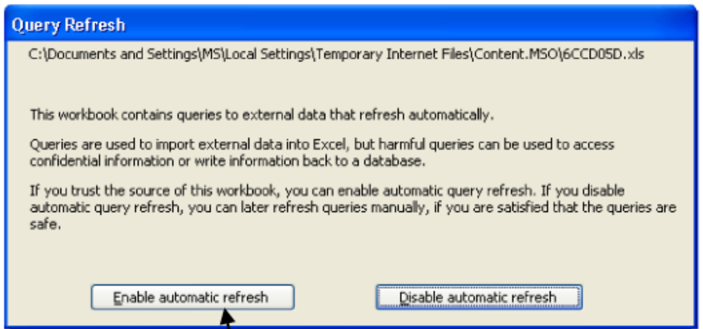
II. Line-By-Line Instructions for Completion of the VTUSF Revenue Report

All information provided on the revenue report must be legible and printed in black or blue ink or typed. The best way to complete the worksheet is to use an electronic copy. There are formulas and many features built in to the electronic version that are not available when completed any other way.

Upon opening the worksheet within an Internet browser window or Microsoft Excel, you may receive prompts similar to these:



Selecting "Enable Macros" will enable some additional functionality that will not be available if you either have your Microsoft Excel macro security set to HIGH or if you choose "Disable Macros".



Selecting "Enable automatic refresh" at this prompt will update the rate and worksheet version information contained within the worksheet and will provide additional verification that you are using the latest rates and worksheet.

VERMONT UNIVERSAL SERVICE FUND
FISCAL YEAR 2012/2013 REVENUE REPORT INSTRUCTIONS

Fill in the information as follows:

Carrier Section (Lines 1 – 5):

Line 1. VTUSF Assigned ID - The VTUSF company code, supplied by the Administrator and available at http://www.r-l-s-a.com/Vermont/VTUSFCompanyCodes.pdf, starts with VT followed by four digits.

If this is the first filing for your company and you have not yet been assigned a code, you may indicate NEW on line 1.

Line 2. Carrier Name – Enter the name that identifies the entity for which data is being reported. Include a doing business as (d/b/a) name, if applicable.

Line 3. Carrier Street Address – Enter the complete street or post office box etc. mailing address where the carrier may receive mail from the Administrator. Do not enter the street address of a filing agent here.

Line 4. Carrier City, State, Zip Code – Enter the city, state and zip code for the line 3 street address where the carrier may receive mail from the Administrator. Do not enter the information for a filing agent here.

Line 5. Carrier Telephone # – Enter the area code and telephone number of the Company identified on line 1 where the Administrator may directly contact the Company. Do not provide a phone number that only goes to a customer service calling center that cannot connect the Fund Administrator to the Carrier's administrative personnel. This need not be the same number as that provided for the Company contact provided below.

Contact Section (lines 6 – 10):

Line 6. Contact Name – Enter the name of the current contact person who can be reached to answer questions from the Fund Administrator, including issues with or regarding the accuracy of the report.

Line 7. Street Address – Complete this line only if the contact provided on line 6 is not located at the address provided in the Carrier detail section, lines 1 thru 5. Enter the complete street or post office box, etc. mailing address of the person identified on line 6. This address will only be used when all other methods of contact, including email and phone (in that order) are not successful.

Line 8. City, State, Zip Code – Complete this line only if the contact provided on line 6 is not located at the address provided in the Carrier detail section, lines 1 thru 5. Enter the City State and Zip Code for the line 7 street address where the person identified on line 6 can be reached if other methods of contact are not successful.

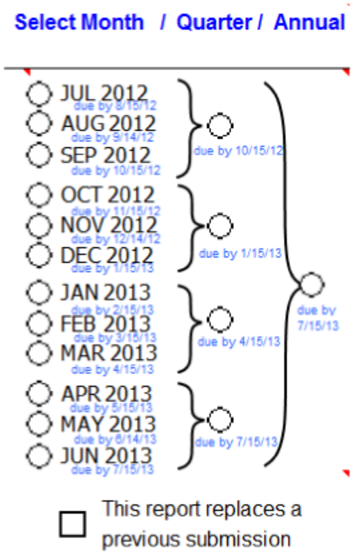
Line 9. Contact Phone # – Enter the area code and telephone number of the contact person identified on line 6 and who is responsible for responding to any questions,

VERMONT UNIVERSAL SERVICE FUND
FISCAL YEAR 2012/2013 REVENUE REPORT INSTRUCTIONS

including the accuracy of the report. Include an extension number or additional phone numbers when appropriate.

Line 10. E-Mail Address – Enter the e-mail address of the contact person identified on line 6. This contact will receive statements of account and notification of the imposition of any late payment penalties. If the Company wishes any additional persons to receive copies of statements of account or other information distributed by the Administrator via e-mail, please supply the additional contact information separately.

Data Period Section (upper right of worksheet):



The Revenue Data Period indicates the applicable time period that corresponds to the revenue data being reported. Please select the appropriate period. Carriers should report according to the reporting frequency assigned to them by the Administrator. Please see the company's VTUSF statement of account, above the mailing address, for the current reporting frequency assigned by the Administrator.

If you are reporting for a monthly period, please mark the circle to the left of the corresponding month. If you are reporting for a quarterly period, please mark the circle to the right of the corresponding three month period. If you are reporting for an annual period, please mark the single circle to the right of the list of calendar months.

If this worksheet is being prepared to replace a report previously submitted for the same period, place a checkmark in the box to the left of the label "This report replaces a previous submission".

Billed Retail Revenues Section (lines 11 – 21):

Revenues entered here should be for the revenue data period indicated in the Data Period Section as described above. These revenues are ***billed retail revenues*** and should correspond to the official books and records of the reporting carrier.

Retail revenues are derived from the provision of services to end users and not to reseller carriers. Retail revenues exclude revenues from wholesale services, unbundled local access services, and access for the provision of long distance service.

A company purchasing a service for resale to an end-user will assess the VTUSF assessment on revenues collected from its end-users. The wholesale company will not include in its retail revenues any services to resellers that are reporting carriers. Services purchased for internal use and not resold to end-users are considered retail revenues of the selling company, subject to the VTUSF assessment.

VERMONT UNIVERSAL SERVICE FUND
FISCAL YEAR 2012/2013 REVENUE REPORT INSTRUCTIONS

Retail revenues include, but are not limited to, revenues from the following types of services and charges:

- Local Service, including basic monthly charges, extended area service charges, local measured service usage, location charges for "mileage bands," the federal subscriber line charge, and any directory related charges such as for additional listings or for non-publication or non-listing of a telephone number.
- Enhanced services provided through the local switch such as call forwarding, caller identification, and voice mail, but only to the extent that these charges are not stated separately from other local services.
- Toll services, whether intrastate, interstate, or international, which are billed to a Vermont address, regardless of origin and terminating location.
- Credit card or third number calls billed to Vermont addresses, regardless of where originated or terminated. Conversely, a call originating in Vermont that is charged to a credit card with a billing address outside Vermont should not be included.
- Both voice and electronic directory assistance services.
- Revenues from comparable services billed by wireless providers to Vermont customers, including monthly charges, usage, roaming usage and long distance charges. (Includes revenues from mobile cellular telephone services, and PCS/PCN services.)
- Two-way cable television service that interacts with the public switched network. An example would be a home shopping system wherein a customer orders merchandise from a mail order firm by creating some input for the local television set that is sent to the head end of the video system, processed, and forwarded on telephone lines to the retailer.

Retail revenues do not include revenues derived from the following types of services and charges:

- Wholesale transactions, including access charges paid by or to a local exchange carrier, interconnection charges paid by or to a cellular provider and billing and collection charges.
- Services consisting primarily of the creation of artistic material or other information that is later transmitted over telecommunications equipment, including information services.
- Mobile radio and paging services that do not have an electronic interface into the public switched network.
- Support payments from VTUSF.
- Telecommunications services provided inside a company's proprietary network. However, if the company pays a telecommunications service provider for some services, such as for trunk lines or transport services, those revenues are not exempt.
- Sales and rentals subject to the sales and use tax including sales and rental of telephone equipment.
- Inside wire installation or maintenance services sold to customers.

VERMONT UNIVERSAL SERVICE FUND
FISCAL YEAR 2012/2013 REVENUE REPORT INSTRUCTIONS

- Yellow pages advertising.
- Payments between aggregators and operator services providers, such as when an operator service provider pays a hotel for the right to put a pay telephone in the hotel's lobby.
- Video on demand, where a customer input selects only a video to be seen by a customer, and where there is no connection to the outside telephone system.

Line 11 - **Local Exchange** - Includes basic monthly charges, extended area service charges, and local measured service. This excludes the federal subscriber line charge (record SLCs on Line 12) and includes any directory-related charges such as for additional listings or for non-publication or non-listing of a telephone number.

Line 12 - End User SLCs (Federal) - The Subscriber Line Charge is the flat monthly fee for residential and business lines, imposed by the Federal Communications Commission.

Line 13 - Enhanced Services - Includes revenues derived from custom calling services such as call-waiting, call-forwarding and central office-controlled answering service.

Line 14 - Private Lines - Includes revenues from providing services that involve dedicated circuits, private switching arrangements and/or predefined transmission paths, whether virtual or physical, providing communications between specific locations.

Line 15 - Toll Telephone Service (originating, terminating or billed to a VT address)- Includes all toll services including intrastate, interstate, or international, which are billed to a Vermont address, regardless of origin and terminating location. This includes credit card or third number calls billed to a Vermont addresses, regardless of where originated or terminated as well as WATS, 800, 900, “WATS-like" and similar services. (To the extent possible, record Operator Services on Line 16). Conversely, a call originating in Vermont that is charged to a credit card with a billing address outside Vermont should not be included.

Line 16 - Operator Service - Includes revenues from calling cards, credit card calls, person-to-person calls, and calls with alternative billing arrangements such as third number billing and collect calls.

Line 17 - Directory Assistance - Includes revenues from directory assistance information services, both voice and electronic.

Line 18 - Pay Telephone (non-coin revenues) - Includes revenues derived from public and semi-public telephone services, excluding revenues for calls paid for by depositing coins in the set (coin sent - paid).

Line 19 - Mobile, Cellular and PCS - Includes revenues from cellular telephone service and any non-cellular mobile services, such as radio, telephone or personal communication services (PCS/PCN).

Line 20 - 2 Way Cable TV - Includes revenues from a 2- W ay CATV, which is a two-

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directional cable transmission that interacts with the public switched network.

Line 21 – Total Retail Revenues Subject to Vermont USF Assessment - Enter the sum of the revenues reported on Lines 11 thru 20. When using the form electronically, the sum will be calculated and filled in automatically.

NOTE: If pop-up comments appear and disappear and/or hinder your ability to see, read, or enter data, try adjusting the zoom percentage with which you are viewing the worksheet. Different zoom percentages will relocate and change the shape of the pop-up comment boxes. You can find the Zoom option in the View menu.

Assessment Section:

This section permits carriers to report the assessment for the selected period using either an accrual or a cash accounting basis. To determine the assessment using the accrual accounting method, which multiplies billed retail revenues by the assessment rate but allows for an uncollectible deduction, complete lines 22 thru 25. To report the amount of assessments *collected* from end-users during the selected period, complete line 26. If completing the report electronically and you want to report using the cash accounting method, simply enter the collected assessment amount for the period on line 26 and the values on lines 22 thru 25 will appear grayed out and will not be used.

To report the assessment using an accrual accounting method, complete lines 22 through 25 and do not enter a value on line 26:

Line 22 – Applicable Assessment Rate - The assessment rate is filled in for you based on the decision of the Vermont General Assembly. If you have opened and are completing the worksheet electronically using MS Excel and you have opted to Enable Automatic Refresh of the queries (referenced on Page 2 of these instructions), this check happens for you. If you are preparing the worksheet by some other method, the rate should be verified by checking on the RLSA webpage www.r-l-s-a.com/vermont/. Insert the decimal rate corresponding to the period being reported. For example, if the rate is 1.25%, enter .0125.

Line 23 – Assessment Based on Billed Retail Revenues – If completing the report using MS Excel, this is completed for you. Otherwise, enter the rounded product of the total on line 21 and the decimal rate on line 22. Round results greater than or equal to half of a penny up to the next penny such that $51.235 becomes $51.24. Round results less than half a penny down to the next lower penny such that $51.234 becomes $51.23.

Line 24 – Uncollectible Assessments – *[OPTIONAL]* – Enter the amount of assessments that have not been or are not expected to be collected from the retail end-users. This amount is used to adjust the assessment as necessary, based on historical collections experience.

Line 25 – Total Assessment Expected to be Collected – If completing the report using MS Excel, this is completed for you. Otherwise, enter the value from line 23 minus the value from line 24.

To report the assessment using a cash accounting method, complete line 26:

Line 26 – Assessments Received from Vermont Retail Customers – Enter the total amount of Vermont USF assessments collected during the period being reported. If

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completing the worksheet using MS Excel, the values on lines 22 thru 25 will be grayed out to indicate that the cash accounting value of assessments Received from Vermont Retail Customers will be used instead of the accrual values.

Line 27 – Assessments for Period – If completing the worksheet electronically, this value will be completed for you automatically. Otherwise, enter the value from line 26 if using the cash accounting method **OR** the value from line 25 if using the accrual accounting method of reporting.

Adjustments Section:

Line 28 – Outstanding (Credit) Or Debt - Enter any outstanding VTUSF account debt as a positive number or unused VTUSF account credit as a negative number. If this worksheet is replacing a previous report for the same period, enter the previous worksheet's line 27 assessment value as a negative number. For example: A worksheet was submitted that reported $45.16 as the assessment for April 2009 but was subsequently determined to be incorrect. On the replacement worksheet for April 2009, mark the "This report replaces a previous submission" checkbox (referred to page 4) and include -$45.16 on this line, in addition to any other account credit or debt.

Line 29 - Lifeline Credits - Enter the number of Lifeline customers and the average Lifeline Assistance credit per customer. If completing the worksheet using MS Excel, the product will automatically appear in the rightmost column. Otherwise, multiply the number of customers by the average credit per customer (to the extent reimbursable by the Vermont USF[*]) and enter the result in the rightmost column. **Do not include Subscriber Line Charge credits reported to the Federal Lifeline Program.**

Line 30 - Allowable Lifeline Administrative Expenses - Enter the amount of Lifeline Program allowable administrative expenses for the report period.

Line 31 - Gross Total - If prepared electronically, the form automatically calculates the gross total due. Otherwise, you should perform the following calculation and enter the result on Line 31:

Line 27 + Line 28 - Line 29 - Line 30

Line 32 – Estimated Late Payment Charge - VTUSF remittances are due to be received by the Administrator on or before the 15th day of the month (except for when the 15th falls on a weekend or federal holiday, in which case, the remittance must be received on or before the previous business day), according to the filing schedule in Attachment A and within the Data Period Section of the worksheet referred to on page 4. Assessments not <u>received</u> by the scheduled date are subject to a one and a half percent (1.5%) penalty per monthly cycle of delinquency (18% cumulative APR), e.g. if the assessment is $200 and is received on the 20th, a $3 penalty is assessed. If the assessment is $5,000, then a $75 penalty is assessed per cycle. If reporting late (or such that the report and payment will not be received by the administrator on or before the due date), enter the appropriate

[*] For detailed information on calculating the Lifeline Credit amounts contact Sharon Allen (802) 828-3081 or sharon.allen@state.vt.us

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estimated late payment charge on Line 32 as a positive number. Late payment charges are determined by the Administrator and added to delinquent carrier accounts regardless of whether a correct estimate is entered on this line. If completing the worksheet using MS Excel, an estimate will be provided for you based on the gross total, filing due date and the computer's current date.

Line 33 – Total Remittance Due – If prepared electronically, the form will automatically calculate this total. Otherwise, enter the sum of the amounts on lines 31 and 32. If the result is positive, this represents an amount to be submitted by check or electronic payment to be received on or before the due date.

Certification Section:

Line 34 – Date, Authorized Signor's Name, Signature and Title - Enter the date of signature, authorized signor's name and title. The signor's signature attests to the accuracy of all information submitted on the remittance worksheet.

Worksheet Submission and Payment Method:

At the bottom of the worksheet and on Attachment B, please take note of several ways to contact the Administrator and where to send VTUSF worksheets and remittances. Payments may be made by check or electronic payment (ACH or EFT), initiated through your financial institution. To ensure proper credit of payments, place the company code on the check or electronic payment request.

How and Where to File:

Signed worksheets may be sent by courier, mailed via the postal service, faxed to RLSA at (888) 811-6920 or scanned and e-mailed to efile@r-l-s-a.com. Worksheets completed electronically within Microsoft Excel can be submitted via email from an authorized contact address. Please contact the administration to gain authorization prior to sending your worksheet electronically in Excel format. Unauthorized Excel format filings will not be accepted.

A button can be found at the bottom center of the worksheet which, if macros are enabled, will offer the functionality, with a single mouse click, of creating an email message automatically addressed, with an appropriate subject line and with the completed worksheet attached.

Filing Revisions:

Revisions may be used for correction of revenues previously reported in error. If you need to change a previously filed report, complete a Carrier Revenue Report & Invoice, mark the reporting period to be replaced, and mark the square box below the list of calendar months indicating "This report replaces a previous submission". Please report the revenue and related information as it should have appeared. Do not report the differences. If multiple periods are being revised, please submit a separate report for

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each revised period, unless revising the whole fiscal year or a single quarter which can be covered by a single report.

Attachment A

VERMONT UNIVERSAL SERVICE FUND

FY2012/2013 VTUSF Reporting Schedule

REVENUE DATA PERIOD TO BE REPORTED	REMITTANCE MUST ARRIVE ON OR BEFORE
Monthly Reporting	
July 2012	August 15, 2012
August 2012	September 14, 2012
September 2012	October 15, 2012
October 2012	November 15, 2012
November 2012	December 14, 2012
December 2012	January 15, 2013
January 2013	February 15, 2013
February 2013	March 15, 2013
March 2013	April 15, 2013
April 2013	May 15, 2013
May 2013	June 14, 2013
June 2013	July 15, 2013
Quarterly Reporting (for carriers designated to file quarterly)	
July 2012 through September 2012	October 15, 2012
October 2012 through December 2012	January 15, 2013
January 2013 through March 2013	April 15, 2013
April 2013 through June 2013	July 15, 2013
Annual Reporting (for carriers designated to file annually)	
July 2012 through June 2013	July 15, 2013

Note: If the due date for the submission of the required report falls on a weekend or a holiday, submit the worksheet so that it arrives to the Administrator by the preceding business day.

Worksheets and remittances are to be sent

by US mail to:

VTUSF
P.O. Box 64777
Baltimore, MD 21264-4777

by fax to 888-811-6920

by courier to:

VTUSF
M&T Bank Lockbox 64777
1800 Washington Blvd., 8th Floor
Baltimore, MD 21230
phone (410) 347-6245

OR, the preferred method…

Worksheets completed electronically using MS Excel can be submitted via email from an authorized contact address. Please contact the administration to gain authorization prior to sending your worksheet electronically in Excel format. Unauthorized Excel format filings will not be accepted.

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Attachment B

Vermont Universal Service Fund

VTUSF Payment and Worksheet Submission Information

See page 9 of the instructions regarding electronic filings. Payments should be transmitted as follows:

For Regular Payments by Check: VTUSF P.O. Box 64777 Baltimore MD 21264-4777	Please make checks payable to: VTUSF
For Overnight Payments by Check: **VTUSF** M&T Bank Lockbox 64777 8th Floor 1800 Washington Blvd. Baltimore, MD 21230 Telephone: (410) 347-6245	Please include the VTUSF Company Code, assigned by RLSA, to assure that your payments are posted correctly.
For Electronic Funds Transfers: **Fedwire** Identify the transmittal as: "VTUSF Payment" Bank: M&T Bank (ATTN Agent Banking) ABA #: ########### Account #: Lockbox #64777 (Checking Account ##########) Acct Name: Vermont Universal Service Fund **ACH** Identify the transmittal as: "VTUSF Payment" Bank: M&T Bank (ATTN Agent Banking) ABA #: ############ Account #: Lockbox #64777 (Checking Account ###########) Acct Name: Vermont Universal Service Fund	VTUSF's Taxpayer Identification Number (FEIN): 45-6246888 If paying by Electronic Funds Transfers please also send a fax or e-mail to the Administrator indicating the date and identifying any amounts involved in the transfer to insure proper credit to your account(s). Please contact us for this information

If you need additional information, please contact VTUSF Administration at (717) 237-6762 or amcgrath@r-l-s-a.com.