

**OKLAHOMA UNIVERSAL
SERVICE FUND**

**STATEMENT OF NET POSITION
June 30, 2013**

OKLAHOMA UNIVERSAL SERVICE FUND

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INDEPENDENT AUDITOR'S REPORT

To the Oklahoma Corporation Commission, Public Utility Division
and the Board of Directors, Solix, Inc.

Report on the Statement of Net Position

We have audited the accompanying statement of net position of the Oklahoma Universal Service Fund ("OUSF"), as of June 30, 2013, and the related notes as listed in the table of contents.

Management's Responsibility for the Statement of Net Position

Management is responsible for the preparation and fair presentation of the statement of net position in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statement of net position that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the statement of net position based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of net position is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement of net position, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statement of net position in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement of net position.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the statement of net position referred to above presents fairly, in all material respects, the financial position of the OUSF as of June 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2016, on our consideration of the OUSF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OUSF's internal control over financial reporting and compliance.

Arlidge & Associates, P.C.

August 22, 2016

OKLAHOMA UNIVERSAL SERVICE FUND

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JUNE 30, 2013**

ASSETS:

Current assets	
Cash and cash equivalents	\$ 44,202,399
Receivable from contributors, net of allowance for doubtful accounts of \$2,696	<u>5,585,389</u>
Total assets	<u>\$ 49,787,788</u>

LIABILITIES:

Current liabilities	
Payable to service providers	\$ 4,051,058
Deferred revenue	<u>869</u>
Total liabilities	<u>4,051,927</u>

NET POSITION:

Unrestricted	<u>45,735,861</u>
Total net position	<u>\$ 45,735,861</u>

See accompanying notes and independent auditor's report.

OKLAHOMA UNIVERSAL SERVICE FUND

NOTES TO THE STATEMENT OF NET POSITION JUNE 30, 2013

1. Summary of Significant Accounting Policies

Significant accounting policies utilized by the Oklahoma Universal Service Fund (the "OUSF" or "Fund") in the preparation of the accompanying statement of net position are summarized below:

Nature of Organization

In 1998, the Oklahoma Corporation Commission ("OCC") adopted rules establishing the new OUSF special revenue fund. The OUSF and the Oklahoma Lifeline Fund ("OLF") are authorized by the Oklahoma Telecommunications Act of 1997 and the Oklahoma Administrative Code 165:59 (Oklahoma Universal Services and Lifeline Rules). The OCC serves as the administrator of the OUSF.

The Fund was established to ensure the availability of universal services at rates that are reasonable and affordable. The OUSF assessment is collected by telecommunications service providers and paid, via a monthly remittance advice, to Solix, Inc., ("Solix"), which was contracted by the OCC to act as manager of the Fund through June 30, 2013.

The OUSF assessment rate was calculated by the OCC after taking into consideration the projected funding requirements of program and support services. The OCC set the rate at 3.14 percent of intrastate telecommunications revenue for the year ended June 30, 2013.

Basis of Accounting and Measurement Focus

The OUSF is accounted for and presented similar to a special-purpose government engaged in business type activities. The OUSF uses the accrual basis of accounting whereby expenses are recognized when the liability is incurred and revenues are recognized when earned.

The OUSF uses the economic resources measurement focus where all assets, liabilities, net position, revenues, expenses and transfers relating to the OUSF and net income and capital maintenance are measured. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB").

The financial statements of the OUSF do not purport to, and do not present fairly the financial position of the Oklahoma Corporation Commission or the State of Oklahoma as of June 30, 2013.

Cash and Cash Equivalents

The OUSF considers all highly liquid debt instruments purchased with an original maturity of three months or less and money market mutual funds to be cash equivalents.

OKLAHOMA UNIVERSAL SERVICE FUND

NOTES TO THE STATEMENT OF NET POSITION JUNE 30, 2013

1. Summary of Significant Accounting Policies (Cont'd)

Receivables from Contributors and Associated Allowance for Bad Debts

Carriers are permitted to file their monthly remittances disclosing revenues on either a cash or accrual basis. As such, timing differences exist. For financial reporting purposes, "receivables from contributors" presented in the statement of net position, represents collections received during the two month period subsequent to the fiscal year end. The allowance is based on management's estimate of collectability of accounts receivable.

Net Position

Net position is displayed in two components: *Restricted Net Position* - consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional or enabling legislations. *Unrestricted Net Position* – all other net position that does not meet the definition of "restricted".

Income Taxes

The activities of the OUSF are tax-exempt since the OUSF is a fund established by the Oklahoma Legislature. Therefore, the OUSF is not subject to federal and state income taxes, sales, gross receipts or other taxes. As such, no provision for taxes has been reflected in the accompanying financial statements.

Use of Estimates

The preparation of the balance sheet in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reporting period including contingencies. Actual results could differ from those estimates.

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NOTES TO THE STATEMENT OF NET POSITION JUNE 30, 2013

2. Deposits, Investments and Investment Risk

At June 30, 2013, the OUSF held the following deposits and investments:

Type	Credit Rating	Carrying Value
Deposits:		
Demand deposits		\$ <u>(15,060)</u>
Investments:		
AIM Liquid Asset Portfolio MoneyMarket	AAAm	1,985,000
FFI Premier Institutional Fund Money Market	Not Rated	<u>42,232,459</u>
		44,217,459
Total deposits and investments		\$ <u><u>44,202,399</u></u>

The bank balance of demand deposits was \$75,464 at June 30, 2013.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the OUSF’s deposits may not be returned to it. The OUSF is governed by the State Public Deposit Act which requires the OUSF to obtain and hold collateral whose fair value exceeds the amount of the uninsured deposits. As of June 30, 2013, the OUSF was not exposed to custodial credit risk as defined above.

Investment Interest Rate Risk – Solix, as manager of the OUSF, maintains a policy to invest only in money market funds that qualify under rule 2(a)7 of the Investment Company Act of 1940, thereby limiting its exposure to investment interest rate risk.

Concentration of Investment Credit Risk – Solix, as manager of the OUSF, does not maintain a policy that limits the amount it may invest in any one issuer. The OUSF has the following concentration of credit risk: 97% of cash and cash equivalents is invested in the FFI Premier Institutional Money Market Fund at June 30, 2013.

3. Solix Contract

As stated in the Contract between Solix and the OUSF Administrator, Solix is reimbursed a fixed amount each fiscal year plus allowable variable costs, as defined. Such variable costs include more than one trip to Oklahoma during the fiscal year, auditing of carriers and other reasonable and necessary expenses incurred by Solix in performance of services. The duties of Solix include the following: monitoring OUSF payments, billing all telecommunications service providers any surcharges, preparing necessary forms for reporting OUSF collections and disbursements, maintaining monthly records, coordinating the collections and disbursement of OUSF monies, distributing the annual report to the OCC, and assisting the independent auditor with the audit of the OUSF. Additionally, the OUSF incurs administrative costs for the annual audit fee and OUSF staff training and travel.

OKLAHOMA UNIVERSAL SERVICE FUND

NOTES TO THE STATEMENT OF NET POSITION JUNE 30, 2013

4. Amounts Paid and Due to Service Providers:

Payments to the qualified recipients are made by Solix as directed by the OUSF Administrator. The qualified recipients receive payments under primary universal services support in order to neutralize the revenue deficits created by federal or state changes to law that reduce revenues received or increase expenses incurred. Additionally, payments are made to service providers who provide Special Universal Service to public schools, public libraries and eligible healthcare entities. For the year ended June 30, 2013, OUSF determined that approximately \$12,007,000 in support payments were due to service providers.

5. Commitments, Contingencies and Concentrations

Financial instruments that potentially subject the OUSF to concentrations of credit risk consist principally of receivables from contributors.

Two service carriers accounted for approximately 39.6 percent (29.0 percent and 10.6 percent, individually) of the OUSF's outstanding accounts receivable at June 30, 2013. Solix estimates that substantially all of the OUSF accounts receivable will be collected based on the assessments issued and general economic conditions. Consequently, an adverse change in these factors could affect OUSF's estimate of bad debts.



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Oklahoma Corporation Commission, Public Utilities Division
and the Board of Directors, Solix, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of net position of the Oklahoma Universal Service Fund (“OUSF”), as of June 30, 2013, and the related notes to the statement of net position, and have issued our report thereon dated August 22, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the OUSF’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OUSF’s internal control. Accordingly, we do not express an opinion on the effectiveness of the OUSF’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OUSF’s statement of net position is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of statement of financial position amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arledge & Associates, P.C.

August 22, 2016