

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

**MISSOURI UNIVERSAL SERVICE BOARD, INC.**

For The Years Ended June 30, 2009 and 2008

**MISSOURI UNIVERSAL SERVICE BOARD, INC.  
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McBRIDE, LOCK & ASSOCIATES

## **INDEPENDENT AUDITORS' REPORT**

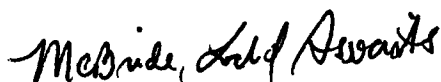
To the Board of Directors of the  
Missouri Universal Service Board, Inc.

We have audited the accompanying statement of financial position of the Missouri Universal Service Board Inc. (the "Organization") as of June 30, 2009 and 2008, and the related statements of operations and cash flows for the periods then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri Universal Service Board, Inc. as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the periods then ended in conformity with accounting principles generally accepted in the United States.

This report is intended solely for the information and use of the Board of Directors and management of the Missouri Universal Service Board, Inc. and is not intended to be and should not be used by anyone other than these specified parties.



McBride, Lock & Associates  
December 14, 2009

**MISSOURI UNIVERSAL SERVICE BOARD, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b><u>ASSETS</u></b>		
Cash and cash equivalents (Note 2)	\$ 1,438,672	\$ 932,152
Assessments Receivable (Note 3)	293,266	309,895
Late Fees and Interest Receivable (Note 3)	6,126	301
<b>TOTAL ASSETS</b>	<b>\$ 1,738,064</b>	<b>\$ 1,242,348</b>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
Liabilities		
Accounts payable (Note 4)	\$ 18,700	\$ 12,909
Payables to Service Providers (Note 5)	507,108	504,713
Total Liabilities	<b>\$ 525,808</b>	<b>\$ 517,622</b>
Commitments and Contingencies (Note 6)	\$ -	\$ -
Net Assets:		
Restricted	1,212,256	724,726
Total Net Assets	<b>\$ 1,212,256</b>	<b>\$ 724,726</b>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b>\$ 1,738,064</b>	 <b>\$ 1,242,348</b>

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

**MISSOURI UNIVERSAL SERVICE BOARD, INC.**  
**STATEMENT OF OPERATIONS AND CHANGE IN RESTRICTED NET ASSETS**  
**AS OF JUNE 30, 2009 AND 2008**

	<b>RESTRICTED FUNDS</b>	
	<b>2009</b>	<b>2008</b>
<b>REVENUE</b>		
Assessments	\$ 3,659,467	\$ 3,688,105
Interest	6,599	13,898
Penalty Interest Payments	7,896	3,021
Late Fee Payments	5,718	4,221
<b>TOTAL SUPPORT AND REVENUE</b>	<b>\$ 3,679,680</b>	<b>\$ 3,709,245</b>
<b>OPERATING EXPENSES</b>		
Support Distribution Payments	\$ 3,093,844	\$ 2,928,478
Commissions and Fees (Note 4)	81,306	93,230
Legal & Professional Fees	17,000	16,000
Bank Charges (Note 4)	-	313
<b>TOTAL EXPENSES</b>	<b>\$ 3,192,150</b>	<b>\$ 3,038,021</b>
<b>NET INCOME/(LOSS)</b>	<b>\$ 487,530</b>	<b>\$ 671,224</b>
<b>RESTRICTED NET ASSETS AT BEGINNING OF YEAR</b>	<b>724,726</b>	<b>53,502</b>
<b>RESTRICTED NET ASSETS AT END OF YEAR</b>	<b>\$ 1,212,256</b>	<b>\$ 724,726</b>

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

**MISSOURI UNIVERSAL SERVICE BOARD, INC.**  
**STATEMENT OF CASH FLOWS**  
**AS OF JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 487,530	\$ 671,224
Adjustments to reconcile change in net assets to cash used by operations:		
(Increase) Decrease Assessments Receivable	16,629	4,934
(Increase) Decrease Late Fees/Interest Receivable	(5,825)	6,529
Increase (Decrease) Accounts payable	5,791	(13,498)
Increase (Decrease) Payables to Service Providers	2,395	44,482
Increase (Decrease) Due to Fund Administrator	<u>-</u>	<u>(100,367)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ 506,520</b>	<b>\$ 613,304</b>
<b>CASH AT BEGINNING OF YEAR</b>	<u>932,152</u>	<u>318,848</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$ 1,438,672</u></u>	<u><u>\$ 932,152</u></u>

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

**MISSOURI UNIVERSAL SERVICE BOARD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION**

The Missouri Universal Service Board, Inc. (the Organization) was organized as a non-profit, public benefit corporation on May 20, 1998 under the laws of the State of Missouri. The Organization was created by Missouri Revised Statute 392.248 and was charged with establishing a Universal Service Fund (“the Fund”) to provide financial assistance to Missouri’s low-income and disabled telecommunications consumers. The Fund is governed by the Missouri Universal Service Board pursuant to the rules of the Missouri Department of Economic Development at 4 CSR 240-31. The Missouri Public Service Commission established a start date of May 1, 2005 with a carrier surcharge of .18% of net jurisdictional revenues. In May of 2007, the Missouri Public Service Commission raised the carrier surcharge to .29% of net jurisdictional revenues. The accompanying financial statements reflect operations for the years ended June 30, 2009 and 2008.

The Organization retained an independent neutral fund administrator, Central Bank, who is responsible for the day-to-day operations of the universal service fund, in accordance with 4 CSR 240-31.030. QSI Consulting, Inc. was the administrator until July 22, 2007 when Central Bank became the administrator.

Funds from the universal service fund shall only be used (1) to ensure the provision of reasonably comparable essential local telecommunications service throughout the state at just, reasonable and affordable rates; (2) to assist low-income and disabled customers in obtaining affordable essential telecommunications services; and (3) to pay the reasonable, audited costs of administering the universal service fund. Funds collected from contributors by the administrator are restricted as to their intended use related to the low income support mechanisms established pursuant to 4 CSR 240-31 and as such are reflected as restricted net assets in the accompanying statements of financial position.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

Accounting Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – The Organization considers all highly liquid securities, purchased with an original maturity of three months or less, to be cash equivalents.

Income Tax Status - The Organization is exempt from federal and state income tax under Section 501 (c) (3) of the Internal Revenue Code.

### **NOTE 3 – ASSESSMENTS RECEIVABLE**

Assessments are to be paid into the fund on a monthly basis by the 22<sup>nd</sup> of the next month or on a quarterly basis for contributors with less than \$50,000 of jurisdictional revenue each month. The Organization has accrued amounts due for the month and quarter ending June 30, 2009 and 2008. Late payments are assessed at the rate of \$16 per filing with interest due at a rate of 0.05% per day times the number of days the payment is received past the date the remittance due. The Organization has accrued estimated amounts due for late fees and interest receivable for the month and quarter ending June 30, 2009 and 2008.

Contributors to the Fund are permitted to revise their revenue data, which may result in adjustments to amounts previously collected. Any such revisions would be recorded only upon receipt of the revised revenue data. The Organization does not believe that the impact of any such adjustments is material to the financial statements presented.

### **NOTE 4 – ACCOUNTS PAYABLE**

Accounts payable represents amounts due to the fund administrator, Central Bank for 2<sup>nd</sup> Quarter of 2009 based upon the terms of their contract with the Organization. These costs for the administration of the fund appear as commissions and fees on the statement of operations.

### **NOTE 5 – PAYABLES TO SERVICE PROVIDERS**

Amounts paid and due to service providers are presented as a gross amount. There is no provision that enables providers to net their support due from Low Income Support Mechanisms against their contributions to the Fund.

During the fiscal year ended June 30, 2008 the Organization changed the timing of remittances to the service providers to address deficiencies in funding. Currently, service provider remittances are made during the first week (usually the 5<sup>th</sup>) of the second month following the actual support month.

### **NOTE 6 – COMMITMENTS AND CONTINGENCIES**

The Organization has no unasserted claims or assessments or other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.



McBRIDE, LOCK & ASSOCIATES

**INDEPENDENT AUDITORS' 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 Board of Directors of the  
Missouri Universal Service Board, Inc.

We have audited the financial statements of Missouri Universal Service Board (the organization) as of and for the year ended June 30, 2009 and have issued our report thereon dated December 14, 2009. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Missouri Universal Service Board's internal control over financial reporting as a basis for designing our auditing procedures 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 Missouri Universal Service Board internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

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 function, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Missouri Universal Service Board's financial statements are free of 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 financial statement 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***.

We noted a certain matter that we reported to management of Missouri Universal Service Board in a separate letter dated December 14, 2009.

This report is intended solely for the information and use of management of the Missouri Universal Service Board, Inc. and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.



McBride, Lock & Associates  
December 14, 2009

**MISSOURI UNIVERSAL SERVICE BOARD, INC.  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2009**

None

**MISSOURI UNIVERSAL SERVICE BOARD, INC.  
SCHEDULE OF PRIOR YEARS FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2009**

Uncollected Revenues

There are no procedures in place to ensure that all companies currently reporting net jurisdiction revenues (NJR) to the Public Service Commission (PSC) are also reporting and remitting fees to the Administrator, Central Bank (CB). A listing of companies reporting to the PSC is provided to CB which sends a letter to all companies seeking information about NJRs. If companies do not respond to CB, no follow up is performed. Information received from companies is aggregated and a report is sent to the PSC which shows companies and NJR information. Additionally, if a company provides information that it has NJRs but does not remit assessments, no follow up is performed by CB. For the list provided to the PSC, there was no documentation that anyone noted or followed up on any exceptions.

A listing of companies reporting to the PSC was compared to lists maintained by CB and more than 50 companies with NJRs exceeding the de minimus were not remitting assessments. While some reasons may exist for the differences, the PSC and CB need to develop procedures to ensure all companies identified with NJRs are followed up on and that all potential assessments are being reported and collected.

There is a potential that significant assessments estimated at \$85,000 during fiscal year 2008, are not being received. Not collecting from all required companies affects the overall fee being charged all companies and could affect the time frame to achieve the required reserve. An adjustment has been appropriately posted to the financial statements.

We recommend that the PSC and CB develop procedures to ensure that all companies required to report are doing so and that all potential assessments are being received. CB should provide the PSC with a list of any company not reporting, and for these and any company that reports NJR to CB but does not remit assessments, the PSC should follow up to determine the reasons and establish appropriate collection processes.

Current Status

The PSC and CB performed a detailed review of the variance in company listing. This review identified 54 telecommunications companies that appeared to be required to remit assessments. CB collected assessments including late fees from 16 companies, 13 were not required to file for various reasons including bankruptcy, out of business, or cancelled certificates. 21 were found to be remitting under another entity name. 2 companies were below the de minimus, and 2 companies they have been unsuccessful in contacting.

The PSC and CB now meet on an annual basis to discuss companies that do not remit assessments but do report Net Jurisdictional Revenues to the PSC. PSC follows up on these variances and determines if companies should be contributing to the Fund. If it is found they should, the PSC contacts the company and takes the appropriate collection actions.

We consider this issue resolved.