

CliftonLarsonAllen LLP  
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Received  
on

SEP 17 2019

Kansas Corporation Commission  
Topeka, Kansas

by  
State Corporation Commission  
of Kansas

We have audited the financial statements of the Kansas Universal Services Fund (KUSF), a special revenue fund of the State of Kansas, as of and for the year ended February 28, 2019, and the related notes to the financial statements, and have issued our report thereon dated September 11, 2019. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant audit findings**

#### ***Qualitative aspects of accounting practices***

##### *Accounting policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the KUSF are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the year ended February 28, 2019.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

##### *Accounting estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the allowance for doubtful accounts is based historical collections and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

*Financial statement disclosures*

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

***Difficulties encountered in performing the audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Uncorrected misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

***Corrected misstatements***

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

***Disagreements with management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

***Management representations***

We have requested certain representations from management that are included in the attached management representation letter dated September 11, 2019.

***Management consultations with other independent accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Significant issues discussed with management prior to engagement***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, any discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

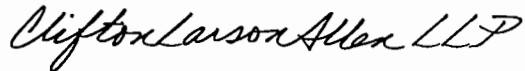
**Other information in documents containing audited financial statements**

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

\* \* \*

This communication is intended solely for the information and use of the Kansas Corporation Commission and management and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
September 11, 2019

September 11, 2019

CliftonLarsonAllen LLP  
8390 E. Crescent Parkway, Suite 300  
Greenwood Village, Colorado 80111

This representation letter is provided in connection with your audit of the Kansas Universal Service Fund's (KUSF) basic financial statements as of and for the year ended February 28, 2019, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States of America.

We confirm that, to the best of our knowledge and belief, as of September 11, 2019, the following representations made to you during your audit.

#### **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 27, 2019, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We acknowledge and have fulfilled our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.
6. Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

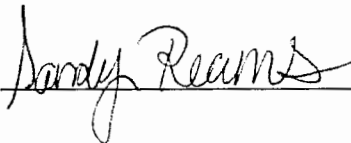
7. No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
8. We have not identified or been notified of any uncorrected financial statement misstatements.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.
11. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
12. We believe that all material expenditures that have been deferred to future periods will be recoverable.

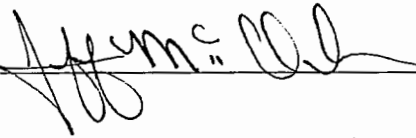
**Information Provided**

1. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. All relevant Commission orders of the governing board have been provided.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management;
  - b. Employees who have significant roles in internal control; or
  - c. Others when the fraud could have a material effect on the financial statements.

5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, grantors, regulators, or others.
6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts and grant agreements, or abuse whose effects should be considered when preparing financial statements.
7. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
8. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.
9. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
10. We have a process to track the status of audit findings and recommendations.
11. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
12. We are responsible for compliance with the laws, regulations, and provisions of contracts applicable to the Kansas Corporation Commission and the KUSF, and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
13. The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
14. The financial statements properly classify all funds and activities.
15. Investments are properly valued.
16. Provisions for uncollectible receivables have been properly identified and recorded.
17. Deposits and investment securities are properly classified as to risk and are properly valued and disclosed.
18. We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

19. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
20. As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual who possesses suitable skill, knowledge, and/or experience to understand and oversee your services; have made all management judgments and decisions; and have assumed all management responsibilities. We have evaluated the adequacy and results of the service. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

Signature:  Title: Assistant Chief of Telecommunications

Signature:  Title: Director of Utilities

**KANSAS UNIVERSAL SERVICE FUND**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2019**



**KANSAS UNIVERSAL SERVICE FUND  
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## INDEPENDENT AUDITORS' REPORT

To the Kansas Corporation Commission  
Topeka, Kansas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Kansas Universal Service Fund (KUSF), a special revenue fund of the State of Kansas, as of and for the year ended February 28, 2019, and the related notes to the financial statements, which collectively comprise the KUSF's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements 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 financial statements are 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, 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 financial statements 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 financial statements.

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 financial statements referred to above present fairly, in all material respects, the financial position of the KUSF, as of February 28, 2019, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of a Matter**

The basic financial statements of the KUSF are intended to present the financial position and changes in financial position of only that portion of the financial reporting entity of the KUSF that is attributable to the transactions of the KUSF. They do not purport to, and do not, present fairly the financial position of the State of Kansas as of June 30, 2019 and the changes in their financial position for the year then ended, in conformity with the accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

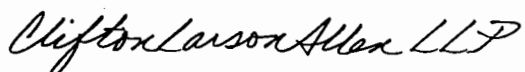
**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2019, on our consideration of the KUSF'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the KUSF's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the KUSF's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
September 11, 2019

**KANSAS UNIVERSAL SERVICE FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FEBRUARY 28, 2019**

This section of the Kansas Universal Service Fund ("KUSF" or "Fund") annual financial report represents management's discussion and analysis of the Fund's financial performance during the years ended February 28, 2019, and February 28, 2018. It should be read in conjunction with the KUSF's financial statements, which follow this section.

**Financial Highlights**

- The KUSF assessment rate (7.50%) is higher than the prior year's rate (7.25%), and the KUSF obligations declined from \$46.4 million to \$41.2 million.
- The Fund's total revenues as of February 28, 2019, were \$42.891 million, compared to \$45.130 million on February 28, 2018.
- The largest change is a \$3.493 million reduction in total expenses, largely due to the amendment of K.S.A. 66-2008(c)(4). The Fund realized a \$2.836 million increase in revenues over expenses.

	Years Ended In Thousands of Dollars		Increase (Decrease)
	2019	2018	2019 vs. 2018
Cash and Cash Equivalents	\$ 100	\$ 100	\$ -
Investments	5,676	2,929	2,747
Accounts Receivable (Assessments Net Uncollectible)	3,204	3,160	44
Total Assets	8,980	6,189	2,791
Liabilities Payable to Service Providers	3,230	3,247	(17)
Liabilities Payable to Contributors	-	22	(22)
Accounts Payable and Accrued Expenses	40	46	(6)
Total Liabilities	3,271	3,315	(44)
Total Fund Balance	<u>\$ 5,710</u>	<u>\$ 2,874</u>	<u>\$ 2,836</u>
Operating Revenues	\$ 42,891	\$ 45,130	\$ (2,239)
Total Revenues	42,891	45,130	(2,239)
Total Expenditures	40,055	43,548	(3,493)
Excess of Revenues over Expenditures	<u>\$ 2,836</u>	<u>\$ 1,582</u>	<u>\$ 1,254</u>

**KANSAS UNIVERSAL SERVICE FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FEBRUARY 28, 2019**

**Overview of the Financial Statements**

This annual report consists of two parts: (1) management's discussion and analysis (this section); and (2) the basic financial statements. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

**Discussion of Significant Events Affecting Operations**

During the year ending February 28, 2019, the KUSF size and assessment rate were changed to \$41.2 million and 7.50%, respectively. As non-voice traffic (e.g. texting, internet) continues to increase and voice traffic continues to decrease, assessable revenue will also decrease. Assuming stable expenditures, this may cause the assessment rate to increase.

The most significant changes to expect in the coming years will continue to be a result of the Federal Communications Commission's (FCC) reform of the Universal Service Fund (USF) since changes to the federal support mechanisms affect the KUSF.

## **BASIC FINANCIAL STATEMENTS**

**KANSAS UNIVERSAL SERVICE FUND  
BALANCE SHEET  
FEBRUARY 28, 2019**

**ASSETS**

Cash and Cash Equivalents	\$ 99,804
Investments	5,676,057
Accounts Receivable - Assessments, Net	
Allowance for Uncollectibles of \$942,299	<u>3,204,331</u>
 Total Assets	 <u><u>\$ 8,980,192</u></u>

**LIABILITIES AND FUND BALANCES**

**LIABILITIES**

Payable to Service Providers	\$ 3,230,356
Accounts Payable and Accrued Expenses	<u>40,209</u>
Total Liabilities	3,270,565

**FUND BALANCE**

Assigned	<u>5,709,627</u>
 Total Liabilities and Fund Balance	 <u><u>\$ 8,980,192</u></u>

See accompanying Notes to Financial Statements.

**KANSAS UNIVERSAL SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**YEAR ENDED FEBRUARY 28, 2019**

**REVENUES**

Assessments	\$ 42,757,791
Late Payments and Late Filing Charges	48,212
Investment Earnings	<u>84,894</u>
Total Revenues	<u>42,890,897</u>

**EXPENDITURES**

Amounts Paid and Due to Service Providers	39,523,087
Administrative Costs	<u>532,296</u>
Total Expenditures	<u>40,055,383</u>

<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	2,835,514
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Fund Balance - Beginning of Year	<u>2,874,113</u>
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<b>FUND BALANCE - END OF YEAR</b>	<u><u>\$ 5,709,627</u></u>
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See accompanying Notes to Financial Statements.



**KANSAS UNIVERSAL SERVICE FUND  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

On April 4, 1996, the Kansas Corporation Commission (KCC) issued an Order to create the Kansas Universal Service Fund (KUSF). The KUSF was established, effective January 1, 1997, by the Kansas Telecommunications Act of 1996. The KUSF was established to preserve and enhance universal service, protect the public welfare, ensure the continued quality of telecommunications services and open local telecommunications to competition. The KUSF is funded by an assessment on all telecommunications service providers that provide intrastate retail telecommunications services in Kansas, and is paid, via a remittance advice, to GVNW Consulting, Inc. (GVNW), which was selected by the KCC to act as the administrator of the KUSF starting October 2008. The KUSF is a special revenue fund of the State of Kansas.

The KUSF assessment percentage is calculated by KCC staff after taking into consideration the projected fiscal year funding requirements and projected intrastate retail revenues. Docket No. 18-GIMT-084-GIT set the KUSF assessment rate for the period of March 1, 2018 through February 28, 2019, at 7.50 percent of intrastate retail telecommunications revenue.

Prior to the commencement of a new fiscal year, an estimate of the KUSF's desired fund balance for the new fiscal year is prepared. The previous year's fund balance, the fiscal year's estimated disbursements and carrier contributions, as well as a variable contingency factor, are used to budget the desired fund balance. A contingency factor for the year ended February 28, 2019 of 7.5 percent of the adjusted KUSF funding requirement was authorized in KCC Docket No. 00-GIMT-236-GIT. The balance at the end of each fiscal year is available to reduce the funding requirements from contributing carriers for the following fiscal year.

**Basis of Accounting and Financial Statement Presentation**

The KUSF is a special revenue fund of the State of Kansas. The financial statements of the KUSF have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The KUSF is accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet. The statement of revenues presents revenues and expenditures that result in changes in fund balance. The KUSF does not adopt an annual budget on a GAAP basis as annual budget is adopted at the statewide level and reported within the State of Kansas Comprehensive Annual Financial Report (CAFR).

The KUSF is accounted for on the modified accrual basis of accounting, which recognizes revenues when they become measurable and available to pay current reporting period liabilities. Revenues are considered to be available if received within one month after the fiscal year-end. Expenditures and related liabilities are recognized when obligations are incurred.

**KANSAS UNIVERSAL SERVICE FUND  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Cash and Cash Equivalents**

All highly liquid securities purchased with an original maturity of three months or less are considered to be cash equivalents. Surplus funds of the KUSF are deposited in a money market mutual fund consisting of cash equivalents and U.S. Treasury Securities, which are backed by the full faith and credit of the United States Government.

**Investments**

Investments are reported at amortized cost.

**Revenue Recognition**

All Kansas telecommunication service providers are assessed based on their intrastate retail revenues and the KCC approved rate, with the assessments self-reported to the KUSF. It is a KUSF policy to recognize self-assessments, relation to the current fiscal year, received within one month after fiscal year end. Any late filings will be recognized in the subsequent period or periods. All Kansas telecommunications service providers are authorized, but not required, to recover an amount equal to or less than, their assessments from customers. The KUSF has determined that \$942,299 of the fees and fines owed by TAG Mobile are uncollectible.

**Receivables and Credit Policies**

Accounts receivable – assessments are recorded when received within one month of the period end. Additionally, certain miscellaneous receivables, known as true-ups, are recorded as receivables. True-ups may be received within two months of the period end.

Effective November 1, 2018, late filing charges are assessed at one percent per month on self-assessments when received late. From March 1, 2018 through October 30, 2018, late carrier remittance worksheet penalties were charged at a rate of one percent of the assessment owed, 12 percent cumulative, or one hundred dollars per worksheet, whichever was greater. Late charges totaled \$48,212 for the year ended February 28, 2019.

**Fund Balances**

As prescribed by GASB Statement No. 54, governmental fund balances are classified based primarily on the extent to which the administrator is constrained on the specific purposes for which amounts in the KUSF may be spent. The accounting and finance policies for the KUSF are used to interpret the nature and/or requirements of the funds and their corresponding assignment of restricted, committed, assigned, or unassigned. Fund balances are classified as follows:

**KANSAS UNIVERSAL SERVICE FUND  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

Nonspendable – amounts that cannot be spent either because they are not in a spendable form, such as inventory or prepaid insurance, or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of ordinances, state or federal laws, or externally imposed conditions by grantors and creditors.

Committed – amounts constrained to specific purposes by the KUSF, using the highest level of decision making authority, the KCC. To be reported as committed, amounts cannot be used for any other purpose unless the KUSF takes the same highest level action to remove or change the constraint.

Assigned – amounts the KUSF intends to use for a specific purpose. Intent can be expressed by an official or body to which the KUSF delegates the authority.

Unassigned – all amounts not included in other spendable classifications.

In the circumstance when an expenditure is made for a purpose for which funds are available in multiple classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned. As of February 28, 2019, the KUSF only had assigned fund balance.

**NOTE 2 ASSESSMENTS**

Identified carriers that are operating in the State of Kansas provide assessments to the KUSF. The KCC and the KUSF administrator communicate to identify new carriers that are certified to offer service or are otherwise identified as offering services in the State of Kansas. Once the carriers are identified, they are billed retroactively for all active periods of the KUSF in which they were operating in the State of Kansas. The cumulative billings for prior period reporting of delinquent contributors, true-ups and changes to revenues due to carrier audits are out-of-period adjustments included in contributions in the period in which they are billed or determined. Out-of-period adjustments included in assessments for the year ended February 28, 2019 were \$226,938.

**NOTE 3 AMOUNTS PAID AND DUE TO SERVICE PROVIDERS**

Universal Service Support payments to the qualified recipients are made by GVNW as directed by the KCC. During the year ended February 28, 2019, the determination was made to pay the following amounts in support payments to service providers:

Universal Service Support	\$ 38,182,571
Lifeline Assistance Support	766,951
Kansas Relay Service, Inc.	338,855
Telecommunications Access Program	234,710
Total Amounts Paid and Due to Service Providers	<u>\$ 39,523,087</u>

**KANSAS UNIVERSAL SERVICE FUND  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

**NOTE 4 CASH AND INVESTMENTS**

**Deposits**

*Custodial Credit Risk* – This is the risk that, in the event of the failure of the counterparty, the KUSF will not be able to recover the value of its deposits or investments. Kansas statutes require that deposits be collateralized, and that collateral pledge must have a fair market value equal to 100 percent of the deposits and investments, less insured amounts. At February 28, 2019, the KUSF's deposits were not exposed to custodial credit risk.

**Investments**

As of February 28, 2019, the KUSF had the following investments:

	<u>Value</u>	<u>Maturity</u>
Investments:		
Federated Treasury Obligations Fund #398	<u>\$ 5,676,057</u>	Less Than One Year

*Credit Risk* – Is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The Commission elected to adopt objectives for the KUSF investments which limits KUSF investments to public debt securities backed by the full faith and credit of the United States and any agency, interest-bearing time deposits in federally insured commercial bank or trust company to the extent covered by such insurance, repurchase contracts of less than 30 – days duration, shares or accounts in savings in loan associations insured by federal savings and loan insurance corporations, or other federal agency, to the extent covered by such insurance and shares or units of a money market fund or trust.

*Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The KUSF does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The KUSF is not exposed to significant interest rate risk.

*Concentration of Credit Risk* – The KUSF has no policy limiting the amount the KUSF may invest in any one issuer.

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that, in the event of the failure of the issuer or counterparty, the KUSF will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At February 28, 2019, the KUSF's investments were not exposed to custodial credit risk.

*Fair Value Measurement* – As of February 28, 2019, the KUSF had invested \$5,676,057 in the Federated Treasury Obligations Fund #398, a money market mutual fund which complies with the Rule 2a-7 definition of a government money market fund. The Fund is rated AAAM by Standard & Poor's and is valued at amortized cost. Based on the valuation method, additional disclosures are not required under GASB Statement No. 72.

**KANSAS UNIVERSAL SERVICE FUND  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

**NOTE 5 ADMINISTRATIVE COSTS**

GVNW is reimbursed a fixed administrative fee each fiscal year as defined by the contract with the KCC. The administrative fee from March 1, 2018 to February 28, 2019 was payable in monthly installments of \$16,250. The audit costs are amounts paid for external audit fees and to GVNW for carrier audits and bank fees are paid as part of the administrative contract. Other administrative costs include legal fees and support overpayments related to the annual external audit of the KUSF.

For the year ended February 28, 2019, total administrative costs paid by the KUSF were as follows:

Audit Fees	\$ 262,005
Administrative Fees	198,159
External Audit Fees	44,350
Legal Fees	24,924
Bank Fees	2,858
Total Administrative Costs	<u>\$ 532,296</u>

**NOTE 6 COMMITMENTS AND CONTINGENCIES**

There are a number of claims and/or lawsuits related to the KUSF as a result of the ordinary course of business. Management and legal counsel anticipate that the potential claims against the KUSF not covered by insurance, if any, resulting from such matters would not materially affect the financial position of the KUSF.

**NOTE 7 RISK MANAGEMENT**

The KUSF may be exposed to various risks of loss related to theft of assets and errors or omissions. The KUSF administrator is required to maintain a bond and commercial insurance purchased from independent third parties to cover such risks. Certain risks or liabilities may be included in the calculation of the KUSF assessments in future periods. There has been no significant change in insurance coverage from the previous fiscal year. Settled claims have not exceeded this coverage during the past three years.

**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 Kansas Corporation Commission  
Topeka, Kansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kansas Universal Services Fund (KUSF), a special revenue fund of the State of Kansas, as of and for the year ended February 28, 2019, and the related notes to the financial statements, which collectively comprise the KUSF's basic financial statements, and have issued our report thereon dated September 11, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered KUSF'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kansas Universal Service Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of KUSF'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.

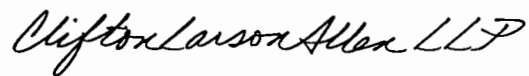
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 KUSF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

### **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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
September 11, 2019