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July 21, 2015

Ms. Amy L. Gilbert
Secretary to the Commission
Kansas Corporation Commission
1500 SW Arrowhead Road
Topeka, KS 66604-4027

RE: Docket No. 15-OOMC-052-KSF
In the Matter of the Audit of OOMA, Inc. by the Kansas Universal Service Fund (KUSF) Administrator Pursuant to K.S.A. 2013 Supp. 2010(b) for KUSF Operating Year 17, Fiscal Year March 2013-February 2014.

Dear Ms. Gilbert:

In its August 12, 2014 order the Kansas Corporation Commission (KCC) directed GVNW to perform a KUSF carrier audit of OOMA, Inc. (Ooma or Company) to ensure that the data submitted to the KUSF via the KUSF CRWs, the assessments paid, and the calculation and application of the flow-through surcharge billed to and collected from Ooma's customers, if applicable, are appropriate and accurate.

The KCC directed GVNW to file two versions of the audit report with the KCC; one version containing confidential information and one version with the confidential data redacted for public disclosure. Ooma's audit does not require a separate confidential report; therefore, only the enclosed public audit report for Ooma is being filed.

Copies of the supporting documentation, including GVNW's audit work papers and information provided by the company, are not included with the audit report, but are available from GVNW upon request.

Sincerely,

A handwritten signature in black ink, appearing to read "David Winter", with a stylized flourish at the end.

David Winter
Senior Consultant

cc w/encl: Sandy Reams
DW/dc – Encl.

KANSAS UNIVERSAL SERVICE FUND AUDIT REPORT

Docket No: 15-OOMC-052-KSF
Ooma, Inc.

Prepared For: Kansas Corporation Commission
Kansas Universal Service Fund

Prepared By: David Winter
GVNW Consulting, Inc.

Audit Period: March 1, 2013 through February 28, 2014
Kansas Operating Year 17 (Operating Year 17)

Company Representatives: Pranali Khadpe

Date of On-Site Visit: Desk Audit

Date Submitted to Company: June 16, 2015

Audit Summary

Based on the Kansas Universal Service Fund (KUSF) Carrier Review Procedures for Operating Year 17,¹ GVNW Consulting, Inc. (GVNW) identified five (5) KUSF reporting issues and one (1) KUSF policy matter regarding Ooma, Inc. (Ooma or Company), with the a net impact of (\$2,495.06) to the KUSF.

- Finding No. 1: Ooma applied the KUSF surcharge to non-assessable international service revenues and reported the related revenues to the KUSF. As a result, Ooma over-paid \$579.80 in KUSF assessments. The Company discontinued this practice April 15, 2015.
- Finding No. 2: Ooma did not report revenues related with its Additional Number Services to the KUSF for the period March 2013 through December 2013. As a result, the Company under-reported revenues and under-paid its KUSF assessment by \$31.07. Ooma started reporting revenues associated with its Additional Number Services in January 2014.
- Finding No. 3: The KUSF surcharge collected from customers was not separately identified, but included as a single line item charge identified as "State 911" that also includes State 911 Service fees. Ooma has represented that it has made the necessary billing system changes effective April 15, 2015.

¹ Docket No. 13-GIMT-130-GIT (Docket 13-130), July 17, 2014, Order Accepting and Approving GVNW Selection Criteria) provided in GVNW Consulting, Inc.'s Letter dated June 25, 2013, Attachment B (Carrier Audit Review Procedure).

- Finding No. 4: Ooma reported calculated revenues, to include Federal Universal Service Fund (USF) and Telephone Relay Service (TRS) revenues, to the KUSF. To calculate the revenues reported to the KUSF, the Company correctly applied the VoIP Safe Harbor to its total Kansas revenues and provided the intrastate revenues to its third-party reporting agent. The Agent applied the Safe Harbor to the total Kansas revenues (interstate and intrastate), calculated the Kansas revenues associated with the FUSF and TRS, and applied the KUSF surcharge. As a result, the Company over-reported revenues and the associated assessment in the amount of \$1,946.33 in KUSF assessments. No customer refunds are required since the Company did not collect the associated KUSF surcharge from its customers. The error was corrected in January 2015.
- Finding No. 5: Ooma provides its subscribers “free” basic residential telecommunications service bundle with the purchase of the Ooma Telco Customer Premise Equipment (CPE) device and the payment of the applicable taxes and fees.² Ooma has not assigned a stand-alone price for the basic free telecommunication services³ nor does it allocate revenues associated with the purchase of the Ooma Telco CPE device. Consequently, there are no intrastate revenues reported to the KUSF for Ooma’s basic residential telecommunications service bundle. Bundled services are to be reported to the KUSF based on the stand-alone service cost, i.e. what the individual service would be charged if not part of a bundle.⁴ Since the Company has not assigned a stand-alone price for its basic residential services, GVNW is unable to determine the revenue or KUSF assessments due from the Company.
- Finding No. 6 – Policy: Ooma reports revenues net of customer discounts to the KUSF.

GVNW recommends that the Commission issue an Order to: (1) adopt the audit findings of this audit report; (2) direct Ooma to submit Audit True-ups for the period of March 2013 through April 2015 to correct all of the noted reporting deficiencies; (3) direct Ooma to provide GVNW copies, whether in hard copy or electronic format, customer bills to verify the KUSF surcharge is now identified as a separate line item; (4) upon submission to the Audit True-ups and copies of customer bills, require GVNW to submit a Compliance Report to the Commission; and (5) address the policy issues outlined in Finding 6 - Policy in Docket 14-105 or a separate proceeding.⁵

² *Ibid.*

³ *Ibid.*

⁴ Docket No. 03.GIMT-932-GIT (Docket 03-932), September 2, 2003, Order, In the Matter of a General Investigation Into Procedures for Recording and Reporting Kansas Universal Service Fund Revenues for Assessment Purposes.

⁵ Docket No. 14-GIMT-105-GIT (Docket 14-105), October 3, 2014, Notice of Filing of Staff’s Report and Recommendation (October 3rd Report).

Current KUSF Obligations

Ooma is current with its KUSF obligations.⁶

Background

Ooma is an Interconnected Voice Over Internet Protocol (VoIP) service provider headquartered in Palo Alto, California. The Company is required to report its revenues and pay the related assessments to the KUSF on a monthly basis.⁷ OOMA is authorized to collect an amount equal to or less than its assessment from customers,⁸ and does so.

On August 12, 2014, the KCC issued Order No. 1 in Docket No. 15-052 directing GVNW to conduct an audit for KUSF purposes.

The Commission on June 11, 2015, granted GVNW's request for an enlargement of time to July 31, 2015.

On January 23, 2014,⁹ the KCC issued an Order stating that it would conduct an investigation into numerous KUSF carrier contribution issues, including whether carriers should report revenue gross or net of end-user customer discounts. The Commission also reminded carriers contributing to the KUSF "to report gross revenues, prior to any service discounts, for KUSF purposes."¹⁰

Staff, on October 3, 2014, filed in Docket 14-105,¹¹ a Report and Recommendation that summarized the parties' positions and provided recommendations to the KCC regarding the contribution issues outlined in the Commission's March 18, 2014, Order¹² in the aforementioned docket. An Order on those issues is pending.

Audit Findings

GVNW conducted the audit of OOMA in accordance with the KUSF Carrier Review Procedures adopted by the KCC.¹³ Based on these procedures, GVNW identified the following audit finding and recommendation:

⁶ Confirmed on June 16, 2015 with the KUSF Administrator.

⁷ Docket No. 06-GIMT-332-GIT (Docket 06-332), January 23, 2006, Order Setting the Kansas Universal Service Fund Assessment Rate For Year Ten and Establishing Reporting Requirements.

⁸ K.S.A. 66-2008.

⁹ Docket 14-105, January 23, 2014, Order Adopting KUSF Assessment Rate For Year Eighteen of KUSF Operations.

¹⁰ *Ibid.*

¹¹ Docket 14-105, October 3rd Report.

¹² Docket 14-105, March 18, 2014, Order Soliciting Comments Regarding KUSF Contributions Issues; Requiring Entry of Appearance to Actively Participate.

¹³ Docket 13-130, July 17, 2014, Order.

Audit Finding No. 1

Standards: International revenues are excluded from the calculation of the KUSF assessment.

Finding: The Company applied the KUSF surcharge to non-assessable international revenues and reported the related revenues to the KUSF for the period March 2013 through April 15, 2015. Ooma corrected the error effective April 15, 2015.¹⁴ As a result, Ooma over-paid \$579.80 in KUSF assessments. The Company did not bill or collect \$23.25 in associated KUSF assessments from its customers for the months of March and April 2013. For the period May 2013 through April 15, 2015, Ooma paid \$556.55 in assessments to the KUSF and collected the same amount from its customers.

Recommendation: The Commission should direct Ooma to submit to GNVW Audit True-ups for Operating Years 17 and 18 (March 2014 – February 2015) and quarterly Audit True-ups for Operating Year 19 (March 2015 – February 2016). Once GNVW has received and reviewed all Audit True-ups, GNVW will submit a Compliance Report to the Commission. The Company should also be required to issue a refund of \$556.55 through one-time, equal billing credits to its current customers.

Audit Finding No. 2

Standard: Recurring monthly local, vertical, and other service charges, extended area service charges, local measured service, and vertical services (i.e. call waiting, caller ID, call forwarding, etc.) revenues are to be reported to the KUSF.¹⁵

Finding: Ooma did not report revenues related with its Additional Number Services to the KUSF for the period March 2013 through December 2013. The Company under-reported revenues and under-paid the KUSF assessment by \$31.07. Ooma started reporting revenues associated with its Additional Number Services in January 2014.

Recommendation: The Commission should direct Ooma to submit to GNVW, Audit True-ups for Operating Years 17.

¹⁴ Release date of updated billing system.

¹⁵ CRW Instructions March 2013 - February 2014 (FY17), page 9.

Audit Finding No. 3

Standard: Any federal, state, local government and/or regulatory taxes, fees and/or surcharges, shall be itemized on a subscriber's bill and shall be clearly identified.¹⁶

Finding: Ooma did not clearly identify the KUSF surcharge on its customers' bills. The KUSF surcharge is included in the billing category entitled "State 911" that also includes State 911 Service fees. Billing fees and surcharges are to be detailed and plainly listed on a customer's bill. The Company stated that it made the necessary changes to clearly identify the KUSF surcharge on April 15, 2015.¹⁷

Recommendations: GVNW recommends that the KCC direct Ooma to provide copies or screen images of customer bills to GVNW that clearly demonstrate the KUSF surcharge as a separate line item. Once GVNW has received and reviewed the sample customer bills, GVNW will submit a Compliance Report to the Commission.

Audit Finding No. 4

Standard: Carriers are required to report actual revenues, and may report uncollectible revenue written off, to determine their KUSF assessment obligation.¹⁸ Federal USF and TRS fees are excluded from revenue reported to the KUSF.¹⁹

Finding: Ooma reported calculated revenues, to include Federal USF and TRS revenues, to the KUSF. To calculate the revenues reported to the KUSF, the Company correctly applied the VoIP Safe Harbor to its total Kansas revenues and provided the intrastate revenues to its third-party reporting agent. The third-party agent applied the Safe Harbor to the total Kansas revenues (interstate and intrastate), calculated the Kansas revenues associated with the Federal USF and TRS, and applied the KUSF surcharge. As a result, the Company over-reported revenues and the associated assessment by \$1,946.33. No customer refunds are required since the Company did not collect the associated KUSF surcharge from its customers. The error was corrected in January 2015.

Recommendation: The Commission should direct Ooma to submit to GVNW, Audit True-ups for Operating Years 17 and 18.

¹⁶ Billing Standards Order Section I.A.3.c. Docket No. 06-GIMT-187-GIT (06-187), July 16, 2010, Final Order (adopting new Billing Standards). Effective July 1, 2013, HB 2201 eliminated the Commission's Billing Standards; therefore, the Billing Standards were in effect for March through June 2013. In addition, carriers must still comply with the Federal Communications Commission's (FCC) Truth In Billing Standards (47 CFR 64.2401) and the FCC's rules regarding recovery of FUSF fees (47 C.F.R. §54.712(a)).

¹⁷ Release date of updated billing system.

¹⁸ Docket No. 94-GIMT-478-GIT, August 13, 1999, Order and Docket No. 10-188, November 2, 2006, Order.

¹⁹ *Ibid.*

Audit Finding No. 5

Standard: Interconnected VoIP providers are required to report and contribute to the KUSF pursuant to K.S.A. 66-2008(a) and Commission Orders.²⁰ For KUSF purposes, a provider is required to report the stand-alone price of an assessable telecommunications service included in a bundle.²¹

Finding: Ooma provides its customers a free basic residential telecommunications services²² bundle with the purchase of the Ooma Telco CPE device and payment of the applicable taxes and fees.²³ Ooma has not assigned a stand-alone price for the basic free telecommunication services²⁴ nor does it allocate revenues associated with the purchase of the Ooma Telco CPE device.²⁵ Consequently, the Company reports no intrastate revenues to the KUSF for Ooma's basic residential telecommunications services bundle. The Company does offer a number of advanced telecommunications service bundles²⁶ in which it does allocate revenues to telecommunications services and reports the associated revenues to the KUSF.

Ooma Response

Ooma respectfully advises the Commission that Ooma's business model and service offerings are unique among the interconnected VoIP services available within the state of Kansas. Ooma operates upon a "freemium" business model, meaning that it provides truly free intrastate telecommunications service to customers that opt for our Basic Service (and does not offer the Basic Service for a fee, either within Kansas or elsewhere). Unlike MagicJack or any of the other service providers referenced in Docket 14-105, our Basic Service is truly free, in that Basic Service customers pay no fee for the service during the lifetime of the customer relationship. Some Ooma customers elect to pay \$9.99 per month for a collection of premium services, which is the "premium" part of the "freemium" business model (<http://www.ooma.com/premier>), and Ooma collects and remits KUSF on the portion of that \$9.99 that represents telecommunications revenue. In effect, Ooma is already correctly apportioning that part of its Kansas revenue that is telecommunications revenue for purposes of the KUSF, since the only other revenue that Ooma receives from customers in Kansas is from the sale of its customer premises equipment, which Docket 14-105 expressly notes are exempted from KUSF by the Commission's own policy.

²⁰ K.S.A. 66-2008(a) and *In the Matter of the Investigation to Address Obligations of VoIP Providers With Respect to KUSF*, Docket No. 07-GIMT-432-GIT.

²¹ CRW Instructions March 2013 - February 2014 (FY17), page 9.

²² Response to Data Request No. 6: US calling, voicemail, caller ID, call waiting, One touch Voicemail access, 911 Email and Text Alerts My Ooma portal, Online call log, Free Ooma to Ooma Calling.

²³ *Ibid.*

²⁴ *Ibid.*

²⁵ Response to Data Request No. 3.

²⁶ Response to Data Request No. 2.

Ooma also notes that the FCC's Bundled Service Order, upon which Docket 14-105 is based, does not address Ooma's unique "freemium" business model, which is predicated on offering free service and selling customers additional, paid services. As noted above, Ooma does collect and remit KUSF on its premium services; and because it collects and remits for its paid telecommunications offerings, Ooma complies with its KUSF obligations.

Recommendation: GVNW is unable to determine the amount of revenue OOMA should have reported or the assessments the Company should have paid since it has not identified a stand-alone price of the service or allocate part of the bundled service price for KUSF purposes. The KCC is currently examining the issues related to providers claiming that it provides assessable telecommunications services for free in Docket 14-105. The Commission may consider whether to address the issue of Ooma's failure to report the stand-alone price for its basic residential services in this Docket, in Docket 14-105, or a separate proceeding.

Audit Finding No. 6 - Policy

GVNW identified that Ooma reports revenue to the KUSF net of customer discounts. The KCC is currently examining whether revenue should be reported gross or net of customer discounts in Docket 14-105.

Ooma Response

Ooma refers the Commission to Ooma's response to Audit Finding No. 5 and the description of Ooma's unique "freemium" business model. Within the broader context of that unique business model, characterizing Ooma's free Basic Service as offered "for a discount" is a misstatement of the facts. The Basic Service cannot be compared to the free "trial" period offered by Ooma's competitors, after which the customer must start paying a monthly fee, since the majority of Ooma's customers in Kansas enjoy our free Basic Service indefinitely, without ever upgrading to our Premier Service. Nor does Ooma offer its Basic Service on a "standalone" basis for a fee, which fee might otherwise provide a basis for describing the free Basic Service as offered "for a discount". Ooma respectfully suggests that in this respect, the Commission may choose to view Ooma as providing a truly free telephone service to a significant number of Kansas residents who may not otherwise be able to afford it, thereby furthering (albeit indirectly) the primary mission of the KUSF program.

Recommendation: GVNW recommends that the Commission address the issue of Ooma's reporting of revenues net of end-user discounts to the KUSF in Docket 14-105 or a separate proceeding, subsequent to its determination of this issue.

CERTIFICATE OF SERVICE

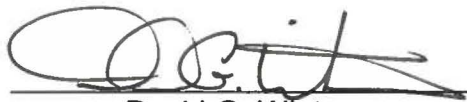
I hereby certify that on this 21st day of July, 2015, the above Kansas Universal Service Fund Audit Report was e-filed with the Kansas Corporation Commission and a copy was sent via electronic mail and/or U.S. Mail to:

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David G. Winter