

Public Service Commission of Wisconsin Universal Service Fund

Financial Statements

June 30, 2020 and 2019

**Public Service Commission of Wisconsin
Universal Service Fund**

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Independent Auditors' Report

To Ms. Rebecca Cameron Valcq, Chairperson
Ms. Ellen Nowak, Commissioner
Mr. Tyler Huebner, Commissioner of
Public Service Commission of Wisconsin
Universal Service Fund

Report on the Financial Statements

We have audited the accompanying financial statements of the Universal Service Fund, a special revenue fund of the State of Wisconsin, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Universal Service Fund's 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Universal Service Fund'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 Universal Service Fund'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 Universal Service Fund, a special revenue fund of the State of Wisconsin, as of June 30, 2020 and 2019, and the changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the financial statements referred to in the first paragraph present only the Universal Service Fund and do not purport to and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2020 and 2019, the changes in its financial position or where applicable, its cash flows for the year then ended, in accordance with 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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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.

Baker Tilly US, LLP

Madison, Wisconsin
November 1, 2021

Public Service Commission of Wisconsin Universal Service Fund

Management's Discussion and Analysis
June 30, 2020 and 2019
(Unaudited)

Management's Discussion and Analysis (MD&A) is prepared by Public Service Commission (Commission) management to provide general information on the financial activities of the Universal Service Fund (USF). The MD&A should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of Commission management.

The Commission is an independent regulatory agency of the State of Wisconsin that is responsible for the regulation of public utilities, including those that are municipally owned. One of the Commission's responsibilities is to administer the USF. The purpose of the fund is to promote access to essential and advanced telecommunications services through discounted rates for service and targeted grant programs. USF assessments also fund programs managed by the Department of Administration (DOA), the Department of Public Instruction (DPI) and the University of Wisconsin (UW) system. 2015 Wisconsin Act 55 transferred the Broadband Expansion Grant Program, which is administered by the Commission, to the USF. Unlike other USF programs, this grant program is funded by the USF fund balance as well as periodic transfers from DOA's Federal E-Rate appropriation. It is not currently funded by USF assessments.

Overview of the Financial Statements

The USF is accounted for as a special revenue fund, which is a governmental fund that uses the flow of current financial resources and the modified accrual basis of accounting. The financial statements provide a detailed short-term view of the USF's finances that assists in determining whether there will be adequate resources available to meet the current needs of the USF. The financial statements include:

- The Balance Sheet, which presents only assets expected to be used and liabilities that come due during the next fiscal year and reports the difference between assets and liabilities as the Fund Balance; and
- The Statement of Revenues, Expenditures, and Changes in Fund Balance, which presents a comparison of revenues for which cash is received during or soon after the end of the year; and expenditures for which payment is due during the year or soon thereafter. The net of these categories increases or decreases the Fund Balance.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Noteworthy Financial Activity

Condensed financial information as of and for the fiscal years ended June 30, 2020, 2019, and 2018 is shown in Table A.

**Public Service Commission of Wisconsin
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Table A
A Comparison of Condensed Financial Information for FY 2019-20 and FY 2018-19
(in millions)

	<u>June 30, 2020</u>	<u>Change</u>	<u>June 30, 2019</u>	<u>Change</u>	<u>June 30, 2018</u>
Total assets	\$ 61.4	\$ 22.5	\$ 38.9	\$ (1.1)	\$ 40.0
Total liabilities	5.6	0.5	5.1	0.4	4.7
Fund balance	<u>\$ 55.8</u>	<u>\$ 22.0</u>	<u>\$ 33.8</u>	<u>\$ (1.5)</u>	<u>\$ 35.3</u>
	<u>Fiscal Year 2019-20</u>	<u>Change</u>	<u>Fiscal Year 2018-19</u>	<u>Change</u>	<u>Fiscal Year 2017-18</u>
Total revenues	\$ 44.5	\$ (0.7)	\$ 45.2	\$ 3.4	\$ 41.8
Total expenditures	44.5	(2.2)	46.7	9.3	37.4
Operating transfer in	22.0	22.0	0.0	(12.5)	12.5
Excess of revenues over expenditures and other uses	<u>\$ 22.0</u>	<u>\$ 23.5</u>	<u>\$ (1.5)</u>	<u>\$ (18.4)</u>	<u>\$ 16.9</u>

The USF's total assets decreased from \$40.0 million on June 30, 2018, to \$38.9 million on June 30, 2019. Total assets increased \$22.5 million, or 57.8 percent, in FY 2019-20. 2019 Wisconsin Act 9, the 2019-2021 Biennial Budget Act, transferred \$22.0 million from DOA's Federal E-Rate appropriation into the USF in FY 2019-20. This accounts for the majority of the increase in assets in FY 2019-20.

USF's total liabilities increased from \$4.7 million on June 30, 2018, to \$5.1 million on June 30, 2019. Total liabilities increased \$0.5 million, or 9.8 percent, in FY 2019-20. The fluctuations generally occurred because of the timing of typical operating activities of the Educational Telecommunications Access Program, known as TEACH, and the Library Service Contracts.

The combination of the factors discussed above caused the fund balance to decrease from \$35.3 million on June 30, 2018, to \$33.8 million on June 30, 2019, before increasing to \$55.8 million on June 30, 2020. However, as discussed in Note 4, a significant portion of the fund balance is committed to future payments, primarily related to grant programs, that have not been disbursed because the grant recipient has not yet requested payment. As of June 30, 2019, \$23.2 million of the fund balance was committed to future reimbursements, which reduced the available fund balance to \$10.6 million. As of June 30, 2020, \$40.9 million of the fund balance was committed to future reimbursements, which reduced the available fund balance to \$14.9 million.

The USF's total revenues increased from \$41.8 million in FY 2017-18, to \$45.2 million in FY 2018-19, before decreasing to \$44.5 million in FY 2019-20. Total revenues primarily consist of assessments. The Commission assesses telecommunications providers, as required by statute and administrative rule, over a 12-month period to fund USF program expenditures. Additionally, as discussed in Note 2, beginning in FY 2018-19, co-payments for the TEACH program at DOA are recorded as revenue. This resulted in \$1.3 million of additional revenue in FY 2018-19 and \$1.4 million of additional revenue in FY 2019-20. The remaining revenue fluctuations reflect changing program needs. 2017 Wisconsin Act 59, the 2017-2019 Biennial Budget Act, established a \$2.0 million annual minimum funding requirement for the Broadband Expansion Grant Program. The funding is required to come from the existing USF fund balance. Given this minimum funding requirement, the Commission must carefully manage assessment revenues and the fund balance to ensure that sufficient funds are available.

Approximately 80.4 percent of total expenditures for FY 2019-20, as well as 85.9 percent of total expenditures for FY 2018-19, related to the six programs administered by DOA, DPI and UW. Expenditure information for these programs is shown in Table B.

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**Table B
DOA, DPI and UW Program Expenditures for FY 2019-20 and FY 2018-19
(in Millions)**

	Fiscal Year 2019-20	Change	Fiscal Year 2018-19	Change	Fiscal Year 2017-18
DPI					
Aid to Public Library Systems	\$ 16.0	\$ 0.0	\$ 16.0	\$ 0.5	\$ 15.5
BadgerLink and Newsline for the Blind	2.9	0.0	2.9	0.1	2.8
Digital Learning Collaborative	1.0	0.0	1.0	0.0	1.0
Library Service Contracts	1.0	(0.1)	1.1	0.0	1.1
Total	20.9	(0.1)	21.0	0.6	20.4
DOA					
Educational Telecommunications Access Program	13.8	(4.2)	18.0	6.7	11.3
UW					
UW System BadgerNet Access	1.1	0.0	1.1	0.1	1.0
Grand total	<u>\$ 35.8</u>	<u>\$ (4.3)</u>	<u>\$ 40.1</u>	<u>\$ 7.4</u>	<u>\$ 32.7</u>

Total expenditures for DPI programs were \$20.4 million in FY 2017-18, \$21.0 million in FY 2018-19 and \$20.9 million in FY 2019-20. Overall, there was little fluctuation in the DPI program expenditures. This is consistent with prior years. The most significant fluctuation related to Aid to Public Library Systems expenditures. Aid to Public Library Systems expenditures increased by \$0.5 million, or 3.2 percent, in FY 2018-19, due to an increase in the appropriated amount.

Total expenditures for TEACH increased from \$11.3 million in FY 2017-18 to \$18.0 million in FY 2018-19. In FY 2019-20, program expenditures decreased 23.3 percent to \$13.8 million. The increase in expenditures in FY 2018-19 can be attributed to the BadgerNet services contract transition as well as an increase in grant program disbursements. In FY 2019-20 there were fewer grant program disbursements, which contributed to the decrease in expenditures.

During both FY 2018-19 and FY 2019-20, DOA continued to award Information Technology Block Grants to provide technology infrastructure to improve the capacity of school districts to utilize technology for instruction. DOA awarded \$808,000 in FY 2018-19 and \$3.0 million in FY 2019-20. In FY 2019-20, DOA also awarded \$1.5 million in Educational Technology Teacher Training Grants for the purpose of training teachers on the use of educational technology. Expenditures for these grant programs are recognized on the financial statements when the grant recipient is reimbursed for grant expenditures. Since there is a time lag between the awarding of the grants and the reimbursement requests, the majority of the expenditures for the FY 2018-19 and FY 2019-20 grant awards are not included on the financial statements. The amounts that have been awarded but not yet paid to the grant recipients are identified as committed in Note 4.

Actual expenditure levels for Commission-operated programs, including administrative costs and Broadband Expansion Grants, increased from \$4.7 million in FY 2017-18 to \$6.6 million in FY 2018-19 and increased again to \$8.7 million in FY 2019-20. Table C shows the year-over-year changes in expenditures for Commission-operated programs for FY 2019-20 and FY 2018-19.

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**Table C
Commission Program Expenditures for FY 2019-20 and FY 2018-19**

	Fiscal Year 2019-20	Change	Fiscal Year 2018-19	Change	Fiscal Year 2017-18
TEPP	\$ 918,427	\$ (336,725)	\$ 1,255,152	\$ (96,563)	\$ 1,351,715
Lifeline	1,023,427	(127,778)	1,151,205	59,009	1,092,196
Nonprofit Access Program	450,259	(374)	450,633	89,743	360,890
Medical Telecommunications Equipment	348,119	(14,700)	362,819	101,588	261,231
TEPP Outreach	239,942	(103,618)	343,560	(1,565)	345,125
Two Line Voice Carryover	2,989	(1,923)	4,912	(870)	5,782
Administrative	290,757	78,454	212,303	12,036	200,267
Total	3,273,920	(506,664)	3,780,584	163,378	3,617,206
Broadband Expansion Grants	5,385,916	2,577,418	2,808,498	1,713,773	1,094,725
Grand total	\$ 8,659,836	\$ 2,070,754	\$ 6,589,082	\$ 1,877,151	\$ 4,711,931

Expenditures for Lifeline increased by \$59,009 in FY 2018-19 and subsequently decreased by \$127,778 or 11.1 percent in FY 2019-20. Lifeline expenditures vary from year to year due to the number of participants and the timing of telecommunications provider reimbursement requests.

Expenditures for TEPP decreased by \$96,563 or 7.1 percent in FY 2018-19 and decreased by \$336,725 or 26.8 percent in FY 2019-20. In general, TEPP expenditures vary from year to year due to the equipment choices of the voucher recipients. Expenditures for TEPP Outreach decreased by \$1,565 in FY 2018-19 and decreased by another \$103,618 or 30.2 percent in FY 2019-20. The decreases in both TEPP and TEPP Outreach expenditures in FY 2019-20 can be partially attributed to the COVID-19 global pandemic.

Expenditures for the Medical Telecommunications Equipment Grant Program increased by \$101,588 or 38.9 percent in FY 2018-19 and subsequently decreased by \$14,700 in FY 2019-20. Expenditures for the Nonprofit Access Grant Program increased by \$89,743 or 24.9 percent in FY 2018-19 and decreased \$374 in FY 2019-20. Similar to the TEACH grants discussed above, fluctuations in expenditures for the Medical Telecommunications Equipment Grant Program and the Nonprofit Access Grant Program occurred largely because of the timing of grant awards and grantee reimbursements. The amounts that have been awarded but not yet paid to the grant recipients are identified as committed in Note 4.

Commission administrative costs for the USF increased by \$12,036 in FY 2018-19 and increased again by \$78,454 or 36.6 percent in FY 2019-20. The increase in FY 2019-20 is primarily due fees for audit services.

Broadband Expansion Grant Program expenditures increased \$1,713,773, or 156.6 percent in FY 2018-19. Expenditures increased by \$2,577,418, or 91.8 percent in FY 2019-20. In FY 2018-19, the Commission awarded \$7.1 million of Broadband Expansion Grants and in FY 2019-20 the Commission awarded \$24.0 million of Broadband Expansion Grants. Similar to the other grant programs discussed above, expenditures are not recognized on the financial statements until grant recipients are reimbursed. Therefore, there is a time lag between the grant award and the expenditures activity. The amounts that have been awarded but not yet paid to the grant recipients are identified as committed in Note 4.

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These financial statements are designed to provide the Legislature and the executive branch of government, the public, and other interested parties with an overview of the financial results of the USF's activities and to show the USF's accountability for the money it receives. Questions concerning any of the information it provides, or requests for additional information, should be addressed to:

Public Service Commission of Wisconsin
c/o Universal Service Fund Director
P.O. Box 7854
Madison, WI 53707-7854

Universal Service Fund

Balance Sheet

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 58,162,267	\$ 35,876,017
Receivables:		
Assessments	2,472,995	2,355,503
Telecommunication equipment purchase program	762,850	630,550
Due from other funds	<u>1,600</u>	<u>3,900</u>
Total assets	<u>\$ 61,399,712</u>	<u>\$ 38,865,970</u>
Liabilities and Fund Balance		
Liabilities		
Program liabilities:		
Educational telecommunications access program	\$ 3,072,187	\$ 2,939,502
BadgerLink and newslines for the blind	39,192	-
Telecommunications equipment purchase program (TEPP)	75,606	93,843
Lifeline	85,060	108,707
Library services contracts	402,466	531,348
UW system BadgerNet access	30,762	32,440
Nonprofit access program	77,278	69,626
Medical telecommunications equipment program	-	135,282
Two-Line voice carryover	148	379
Digital learning collaborative	193,750	-
TEPP outreach	103,232	225,360
Broadband expansion grant program	1,219,134	465,048
Accounts payable	18,757	30,028
Unearned revenues	<u>327,875</u>	<u>442,408</u>
Total liabilities	<u>5,645,447</u>	<u>5,073,971</u>
Fund Balance		
Committed	<u>55,754,265</u>	<u>33,791,999</u>
Total fund balance	<u>55,754,265</u>	<u>33,791,999</u>
Total liabilities and fund balance	<u>\$ 61,399,712</u>	<u>\$ 38,865,970</u>

See notes to financial statements

Universal Service Fund

Statement of Revenues, Expenditures and Changes in Fund Balance
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues		
Telecommunications providers' assessments for:		
Department of public instruction programs	\$ 21,282,799	\$ 20,125,185
Educational telecommunications access program	16,001,997	15,984,366
Public service commission programs	4,204,333	5,936,970
UW systems BadgerNet access	1,055,751	1,055,142
Interest income	567,459	742,918
Miscellaneous revenue	<u>1,370,006</u>	<u>1,335,031</u>
Total revenues	<u>44,482,345</u>	<u>45,179,612</u>
Expenditures		
Program expenditures:		
Educational telecommunications access program	13,846,615	18,049,992
Aid to public library systems	16,013,100	16,016,193
BadgerLink and newslines for the blind	2,899,467	2,862,077
Telecommunications equipment purchase program (TEPP)	918,427	1,255,152
Lifeline	1,023,427	1,151,205
Library services contracts	1,046,261	1,123,012
UW system BadgerNet access	1,054,800	1,054,800
Nonprofit access program	450,259	450,633
Medical telecommunications equipment program	348,119	362,819
Two-Line voice carryover	2,989	4,912
Digital learning collaborative	1,000,000	1,000,000
TEPP outreach	239,942	343,560
Broadband expansion grant program	5,385,916	2,808,498
PSC administrative expenditures	<u>290,757</u>	<u>212,304</u>
Total expenditures	<u>44,520,079</u>	<u>46,695,157</u>
Excess (deficiency) of revenues over expenditures	<u>(37,734)</u>	<u>(1,515,545)</u>
Other Financing Sources		
Transfers in	<u>22,000,000</u>	<u>-</u>
Net change in fund balance	21,962,266	(1,515,545)
Fund Balance, Beginning	<u>33,791,999</u>	<u>35,307,544</u>
Fund Balance, Ending	<u>\$ 55,754,265</u>	<u>\$ 33,791,999</u>

See notes to financial statements

Public Service Commission of Wisconsin

Universal Service Fund

Notes to Financial Statements
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1. Description of the Universal Service Fund

The Wisconsin Public Service Commission (Commission) established the State of Wisconsin Universal Service Fund (USF), as directed by 1993 Wisconsin Act 496, to ensure that all residents of Wisconsin receive essential telecommunications services and have access to advanced telecommunications service capabilities. Act 496 directed the Commission to create and appoint the members of the Universal Service Fund Council, the majority of whom are to be representatives of consumers of telecommunications services, to advise the Commission concerning the administration of the USF. Act 496 also directed the Commission to contract with a private firm to administer the USF. Beginning in FY 2016-17, the Commission contracts with Solix for these services.

The USF is established as a trust fund in s. 25.95, Wis. Stats. As allowed by statute, the Commission requires telecommunications providers to contribute to the USF in amounts sufficient to support the USF's programs and operations. The USF supports funding for telecommunications services and access provided through several state agencies, including the Commission, the University of Wisconsin System (UW), the Department of Public Instruction (DPI), and the Department of Administration (DOA).

A description of each of the programs under which the USF incurred expenditures during FY 2019-20 and FY 2018-19 follows.

Educational Telecommunications Access Program

The Educational Telecommunications Access Program, known as TEACH, is managed by DOA. The program subsidizes equipment purchases, installation, and a portion of the monthly service costs for access to BadgerNet for more than 900 K-12 schools, technical colleges, public libraries, Cooperative Educational Service Agencies (CESAs), and other public and private institutions statewide. BadgerNet is a broadband voice and data network operated by a consortium of telecommunications providers under a contract with DOA. Entities participating in TEACH are responsible for a co-payment amount for their monthly service costs. The funds are also used for grant programs, including the Educational Technology Teacher Training Grants program, funding training for teachers on the use of educational technology; and the Information Technology Block Grants program, funding technology infrastructure for school districts to better use technology for instruction. The Educational Technology Teacher Training Grants were last awarded in FY 2018-19.

Aid to Public Library Systems

2003 Wisconsin Act 33 included statutory language providing that the payment of public library system aid is an authorized use of the USF. DPI is responsible for distributing the aid payments to 17 Wisconsin public library systems according to a statutory formula. These funds go directly to public library systems annually and are intended to promote development and improvement of public libraries through library systems and to provide opportunities for cooperation among all types of libraries. Required services include sharing of books and other resources among libraries through technology and delivery, reference referral, continuing education, services to users with special needs, resource library services, collection development, and consulting services.

BadgerLink and Newsline for the Blind

DPI manages the BadgerLink and Newsline for the Blind programs. BadgerLink funds contracts with vendors to provide online materials that support lifelong learning. The BadgerLink sources include local and national newspapers; job skill building and test preparation workbooks; business news and market data; various reference works; encyclopedias; auto repair resources; general interest and academic magazines; multimedia collections about children's literature; and local history and genealogy sources. BadgerLink databases can be accessed from any computer, tablet, or smartphone connected to the Internet.

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Newsline funds a contract with the National Federation of the Blind (NFB) to provide Wisconsin residents access to the Newsline service. NFB-NEWSLINE is a free audio news service for anyone who is blind, low-vision, or otherwise print-disabled that offers access to more than 500 publications, emergency weather alerts, job listings, and more. The Newsline appropriation also funds a contract with the Wisconsin Talking Book and Braille Library to act as the mandatory Newsline state service hub.

Telecommunications Equipment Purchase Program (TEPP)

This program, which was implemented in May 1996, is administered by the Commission. TEPP assists persons with disabilities in acquiring special telecommunications equipment. Vouchers are given to the qualifying individuals, and these vouchers are used to pay approved vendors for a portion of the cost of the necessary telecommunications equipment.

Voucher values vary for different types of disabilities because the typical equipment needs of persons in different disability categories vary in price. In most cases, the purchaser must make a \$100 co-payment when purchasing the equipment. If the co-payment and voucher are not sufficient to cover the equipment price, the purchaser pays the remaining amount.

Lifeline Program

The Lifeline program, which is administered by the Commission, makes essential telecommunications more affordable for low-income households by discounting the cost of phone, cellular and bundled internet service. Eligible low-income individuals may receive assistance from both the State of Wisconsin and the federal government. The state and federal Lifeline programs for wireless, wireline and bundled customers are based on a standard discount that generally reduces the cost of monthly service by \$5.25 to \$18.50 for essential services, including 911 emergency service. Prepaid wireless Lifeline customers receive a set number of minutes and amount of data each month equivalent to \$10. Providers are reimbursed from the state and federal USF for rate adjustments given to Lifeline customers.

Library Service Contracts

DPI enters into annual contracts that allow Wisconsin residents to use materials from the UW-Madison and Milwaukee Public Library through interlibrary loan; and they support the programs and services of the Cooperative Children's Book Center (CCBC) and the Wisconsin Talking Book and Braille Library (WTBBL). The CCBC is a non-circulating examination, study, and research library for children's and young adult literature. The WTBBL collaborates with the National Library Service for the Blind and Physically Handicapped to provide Wisconsin residents who cannot see regular print materials, access to audio books and brailled materials.

University of Wisconsin System BadgerNet Access

This program, which is administered by UW System, provides funds to help offset the costs associated with access to BadgerNet for University of Wisconsin campuses.

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Nonprofit Access Grant Program

This program, which is administered by the Commission, provides grants to nonprofit groups for partial funding of programs or projects that will facilitate affordable access to telecommunications services for individuals with disabilities, low-income households, and those affected by high costs of essential telecommunications services.

Medical Telecommunications Equipment Grant Program

This program, which is administered by the Commission, provides grants to nonprofit medical clinics and public health agencies to purchase medical telecommunications equipment that will promote technologically advanced medical services, enhance access to medical care in rural or underserved areas, to underserved populations or to persons with disabilities.

TEPP Outreach Grant Program

This program, which is administered by the Commission, provides grants to Wisconsin's eight Independent Living Centers to support ongoing, annual funding for statewide outreach in support of the TEPP Program.

Two-Line Voice Carryover

This program, which is administered by the Commission, provides payment for a second telephone line to certain hearing- or speech-impaired customers who use two lines for the voice and text components of voice or speech carryover service.

Digital Learning Collaborative

This program, which is administered by DPI, provides access to digital content, a learning management system, professional learning, and district planning support to school districts. The program provides services to public school districts, private schools and charter schools.

Broadband Expansion Grant Program

This program, which is administered by the Commission, provides grants to offset the construction costs of extending broadband service to unserved or underserved area of the state. The Broadband Expansion Grant Program is funded from the USF fund balance and previous one-time transfers from the DOA Federal E-Rate appropriation.

2. Summary of Significant Accounting Policies

Basis of Presentation

The USF's financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). The USF is a special revenue fund of the State of Wisconsin. These statements present the financial position and results of operations of only the activity of the USF and are not intended to present the financial activity for the State of Wisconsin as a whole.

Public Service Commission of Wisconsin

Universal Service Fund

Notes to Financial Statements
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Basis of Accounting

The USF 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 operating statement presents revenues, expenditures, and other financing sources and uses that result in changes in net available financial resources.

The USF 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 year after the fiscal year-end. Expenditures and related liabilities are recognized when obligations are incurred.

Change in Accounting Principle

Beginning in FY 2018-19, the co-payments for the TEACH program are reported as TEACH Co-Payment Revenue. Prior to this, the co-payment amount was recorded as a reduction to the TEACH expenditures. This change in accounting principle had no effect on the beginning fund balance.

Cash and Cash Equivalents

Cash and cash equivalents include cash deposited in the State's bank and USF's pro rata share of the State Investment Fund, which is a short-term pool of state and local funds managed by the State of Wisconsin Investment Board. Balances pooled in the State Investment Fund are restricted to legally stipulated investments valued consistent with GASB Statement No. 72.

Telecommunications Providers' Assessments

Annually, the Commission estimates the revenues needed to pay for the fiscal year's program and administrative costs up to the amounts appropriated by the Legislature. The Commission then assesses certain telecommunications providers their share of these costs based on intrastate revenues.

Telecommunications providers with intrastate gross telecommunications revenues of less than \$200,000 annually are exempt from USF assessments. Commercial Mobile Radio Service (CMRS) providers, which include cell phone providers, were assessed beginning in FY 2009-10. Telecommunications providers generally pay one-twelfth of the assessed amount each month. The USF recognizes telecommunications providers' assessments when due. Unpaid assessments as of June 30 are reported on the Balance Sheet as assessments receivable. Prepaid assessments as of June 30 are reported on the Balance Sheet as unearned revenue.

Fund Balance

Fund balance represents the difference between the USF's assets and liabilities. GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes a hierarchy of five fund balance reporting classifications including non-spendable, restricted, committed, assigned, and unassigned. These classifications are based primarily on constraints placed on the use of the funds. Resources in the USF are restricted in use by s. 196.218(5), Wis. Stats. However, because restricted amounts can be transferred to the General Fund of the State of Wisconsin (General Fund), the entire balance in the Universal Service Fund is reported as committed rather than restricted.

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3. Deposits

Cash and cash equivalents include cash deposited in the State's bank and USF's shares in the State Investment Fund. GASB Statement Number 40, *Deposit and Investment Risk Disclosures—An Amendment of GASB Statement No. 3*, requires certain disclosures related to the USF's deposits and shares in the State Investment Fund.

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk is the risk that in the event of the failure of a financial institution, deposits may not be returned. The USF does not have a deposit policy relating to custodial credit risk. The Federal Deposit Insurance Corporation (FDIC) insures the USF's deposits for losses up to \$250,000 resulting from the failure of a financial institution. A state appropriation for losses on public deposits (s. 34.08, Wis. Stats.) insures up to \$400,000 over the amount of federal insurance. As of June 30, 2020, and June 30, 2019, none of USF's deposits were uninsured by the FDIC.

State Investment Fund

Cash deposited with the State of Wisconsin is invested in the State Investment Fund, which is a short-term pool of state and local funds managed by the State of Wisconsin Investment Board with oversight by its Board of Trustees. The State Investment Fund is not registered with the Securities and Exchange Commission. The carrying amount of shares in the State Investment Fund, which approximates fair market value, was \$57,754,000 as of June 30, 2020, and \$35,028,000 as of June 30, 2019.

The types of securities in which the State Investment Fund may invest are enumerated in ss. 25.17(3)(b), (ba), (bd), and (dg), Wis. Stats., and include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States including solvent financial institutions in Wisconsin, and banker's acceptances. The Investment Board's trustees may specifically approve other prudent investments.

Fair Value Measurement: The fair value of the investment in the State Investment Fund, a pooled short-term investment fund managed by the State of Wisconsin Investment Board, is based on net asset value (NAV) per share (or its equivalent). This is a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. The valuation of the underlying investments of the State Investment Fund depends on asset class and maturity date. Repurchase agreements and non-negotiable certificates of deposit are valued at cost. All other short-term debt investments with remaining maturities of up to 90 days are valued at amortized cost. Finally, all other short-term investments with remaining maturities of over 90 days are valued at fair value by third-party pricing services using a matrix-pricing technique. There are no unfunded commitments relating to the State Investment Fund, and shares of the State Investment Fund can be fully redeemed at any time with no notice or other restrictions. For more information on the investments in the State Investment Fund, review the separately issued State Investment Fund Annual Financial Report for the fiscal years ended June 30, 2020 and June 30, 2019. The report is located at <https://www.swib.state.wi.us/publications>.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Investment Fund is unrated; however, the State Investment Fund's investment guidelines establish specific maximum exposure limits by security types based on the minimum credit ratings as issued by nationally recognized statistical rating organizations.

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Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State Investment Fund uses the weighted average maturity method to analyze interest rate risk. Its investment guidelines mandate that the weighted average maturity for the entire portfolio not exceed one year. The weighted average maturity of the State Investment Fund was 31 days as of June 30, 2020, and 16 days as of June 30, 2019.

4. Commitments

The USF is committed to making future payments for vouchers issued but not yet redeemed by TEPP participants and for awards made to participants in the Medical Telecommunications Equipment Grant Program, Nonprofit Access Grant Program, Broadband Expansion Grant Program, and TEACH Grant Programs. These commitments are included in the amount reported as committed fund balance for financial statement purposes and not as a liability because the required invoices and supporting documentation necessary to accrue a payable had not yet been presented to the awarding agency. As of June 30, 2020, and June 30, 2019, the following commitments were included in the committed fund balance:

<u>Program</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
TEPP	\$ 659,867	\$ 505,943
Medical Telecommunications Equipment Grant Program	500,000	571,908
Nonprofit Access Grant Program	740,160	696,950
Broadband Expansion Grant Program	32,032,723	13,428,677
TEACH Grant Programs	7,009,743	8,018,924
	<u>7,009,743</u>	<u>8,018,924</u>
Total	<u>\$ 40,942,493</u>	<u>\$ 23,222,402</u>

5. Transfers From the General Fund

2019 Wisconsin Act 9, the 2019-2021 Biennial Budget Act, transferred \$22.0 million from DOA's Federal E-Rate appropriation into the USF to provide additional funding for the Broadband Expansion Grant Program in fiscal year 2020.