

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

Financial Statements

June 30, 2022

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

Table of Contents
June 30, 2022

	<u>Page</u>
Independent Auditors' Report	1
Required Supplementary Information	
Management's Discussion and Analysis	3
Financial Statements	
Balance Sheet	7
Statement of Revenues, Expenditures and Changes in Fund Balance	8
Notes to Financial Statements	9

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

Opinion

We have audited the financial statements of the Universal Service Fund, a special revenue fund of the State of Wisconsin, as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position for the Universal Service Fund, of the State of Wisconsin, as of June 30, 2022, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Universal Service Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Universal Service Fund of the State of Wisconsin, are intended to present the financial position and the changes in the financial position of only the Universal Service Fund. They do not purport to, and do not, present fairly the financial position of the State of Wisconsin, as of June 30, 2022, and the changes in financial position, or 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents be presented to supplement the financial statements. Such information is the responsibility of management and, 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
December 22, 2022

Public Service Commission of Wisconsin

Universal Service Fund

Management's Discussion and Analysis
June 30, 2022
(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. Beginning in fiscal year (FY) 2016, the Broadband Expansion Grant Program was funded by the USF fund balance as well as periodic transfers from DOA's federal USF E-Rate Aid appropriation. Beginning in FY 2019, this included annual transfers from the USF fund balance, as required by Wis. Stat. 196.218(2s). 2021 Wisconsin Act 58, the 2021–2023 Biennial Budget, provided bonding authority of up to \$125 million for the Broadband Expansion Grant Program. It should be noted that neither the bond repayments, nor the associated debt service costs, will be funded by the USF. The Broadband Expansion Grant Program does not directly receive funds from USF assessments at this time.

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, 2022 and 2021 is shown in Table A.

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

Management's Discussion and Analysis
June 30, 2022
(Unaudited)

**Table A
A Comparison of Condensed Financial Information for FY 2021-22
(in millions)**

	June 30, 2022	Change	June 30, 2021
Total assets	\$ 60.9	\$ (15.5)	\$ 76.4
Total liabilities	6.2	(0.8)	7.0
Fund balance	<u>\$ 54.7</u>	<u>\$ (14.7)</u>	<u>\$ 69.4</u>
	Fiscal Year 2021-22	Change	Fiscal Year 2020-21
Total revenues	\$ 47.3	\$ 3.8	\$ 43.5
Total expenditures	62.0	10.2	51.8
Operating transfer in	<u>0.0</u>	<u>(22.0)</u>	<u>22.0</u>
Excess of revenues over expenditures and other uses	<u>\$ (14.7)</u>	<u>\$ (36.7)</u>	<u>\$ 22.0</u>

The USF's total assets decreased from \$76.4 million on June 30, 2021, to \$60.9 million on June 30, 2022. The decrease is primarily caused by an increase in cash disbursements for the Telecommunications Access for Educational Agencies (TEACH) and Broadband Expansion Grant programs. Additionally, 2021 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 2020-21 to fund Broadband Expansion Grant Program disbursements. There was no transfer in FY 2021-22.

USF's total liabilities decreased from \$7.0 million on June 30, 2021, to \$6.2 million on June 30, 2022. The fluctuations generally occurred because of the timing of Broadband Expansion Grant program disbursements.

The combination of the factors discussed above caused the fund balance to decrease from \$69.4 million on June 30, 2021, to \$54.7 million on June 30, 2022. An analysis of the USF fund balance is shown in Table B.

**Table B
FY 2021-22 Fund Balance Analysis
(in millions)**

	June 30, 2022
Total Committed Fund Balance – As Reported	\$ 54.7
Less: Future Program Reimbursements	(32.5)
Less: Broadband Funding Requirement	(14.1)
Less: Estimated TEACH Program Activity	<u>(2.8)</u>
Estimated Available Fund Balance	<u>\$ 5.3</u>

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, 2022, \$32.5 million of the fund balance was committed to future reimbursements. Further, 2017 Wisconsin Act 59, the 2017-2019 Biennial Budget Act, established an annual funding requirement for the Broadband Expansion Grant Program, which is based on the amount of underspending in all other USF programs. The funding is required to come from the existing USF fund balance. The cumulative funding requirement, as of June 30, 2022, was \$14.1 million. Additionally, an estimated \$2.8 million of the fund balance may be needed in FY 2022-23 for TEACH program activity.

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

Management's Discussion and Analysis
June 30, 2022
(Unaudited)

Given the nature of the TEACH program appropriation, the amount will not be fully known until the end of FY 2022-23. After accounting for these items, the estimated available fund balance is \$5.3 million.

The USF's total revenues increased from \$43.5 million in FY 2020-21, to \$47.3 million in FY 2021-22. 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. The revenue fluctuations reflect changing program needs and budget levels. Given the Broadband Expansion Grant Program annual funding requirement and the nature of the TEACH program appropriation, the Commission must carefully manage assessment revenues and the fund balance to ensure that sufficient funds are available to meet the funding requirement.

Approximately 63.6% of total expenditures for FY 2021-22 related to the six programs administered by DOA, DPI and UW. Expenditure information for these programs is shown in Table C.

**Table C
DOA, DPI and UW Program Expenditures for FY 2021-22
(in millions)**

	Fiscal Year 2021-22	Change	Fiscal Year 2020-21
DPI			
Aid to Public Library Systems	\$ 18.5	\$ 2.5	\$ 16.0
BadgerLink and Newsline for the Blind	3.3	0.1	3.2
Digital Learning Collaborative	1.0	0.0	1.0
Library Service Contracts	1.1	(0.1)	1.2
Total	23.9	2.5	21.4
DOA			
Telecommunications Access for Educational Agencies	14.5	1.2	13.3
UW			
UW System Telecommunications Services	1.0	(0.1)	1.1
Grand total	<u>\$ 39.4</u>	<u>\$ 3.6</u>	<u>\$ 35.8</u>

Total expenditures for DPI programs were \$21.4 million in FY 2020-21 and \$23.9 million in FY 2021-22. The increase is due to a \$2.5 million increase in the Aid to Public Library Systems appropriation.

Total expenditures for TEACH increased from \$13.3 million in FY 2020-21 to \$14.5 million in FY 2021-22. The fluctuation in expenditures for TEACH expenditures occurred largely because the timing of prior year grant awards and current year grantee reimbursements. 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 \$15.9 million in FY 2020-21 to \$22.6 million in FY 2021-22. Table D shows the year-over-year changes in expenditures for Commission-operated programs for FY 2021-22.

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

Management's Discussion and Analysis
June 30, 2022
(Unaudited)

**Table D
Commission Program Expenditures for FY 2021-22**

	Fiscal Year 2021-22	Change	Fiscal Year 2020-21
TEPP	\$ 690,729	\$ (58,467)	\$ 749,196
Lifeline	654,254	(367,780)	1,022,034
Nonprofit Access Grant Program	349,443	(16,794)	366,237
Medical Telecommunications			
Equipment Grant Program	171,823	(225,517)	397,340
TEPP Outreach Grant Program	463,432	151,029	312,403
Lifeline Outreach Grant Program	82,472	82,472	0
Second Line Voice Carryover	2,026	105	1,921
Administrative	294,521	62,073	232,448
	<u>2,708,700</u>	<u>(372,879)</u>	<u>3,081,579</u>
Total	2,708,700	(372,879)	3,081,579
Broadband Expansion Grant Program	<u>19,868,820</u>	<u>7,016,042</u>	<u>12,852,778</u>
Grand total	<u>\$ 22,577,520</u>	<u>\$ 6,643,163</u>	<u>\$ 15,934,357</u>

Expenditures for Lifeline decreased by \$367,780 or 36.0% in FY 2021-22. This is primarily due to a decrease in program subscribership during FY 2021-22.

Expenditures for the Medical Telecommunications Equipment Grant Program decreased by \$225,517 or 56.8% in FY 2021-22. Expenditures for the TEPP Outreach Grant Program increased by \$151,029 or 48.3% in FY 2021-22. Similar to the TEACH grants discussed above, fluctuations in expenditures for these grant programs 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 \$62,073 or 26.7% in FY 2021-22. The increase in FY 2021-22 related to audit fees.

Broadband Expansion Grant Program expenditures increased \$7,016,042, or 54.6% in FY 2021-22. 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 expenditure activity. The amounts that have been awarded but not yet paid to the grant recipients are identified as committed in Note 4.

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, 2022

Assets

Cash and cash equivalents	\$ 57,333,867
Receivables:	
Assessments	2,785,238
Telecommunications access for educational agencies co-payments	769,200
Due from other funds	<u>1,200</u>
 Total assets	 <u>\$ 60,889,505</u>

Liabilities and Fund Balance

Liabilities

Program liabilities:	
Telecommunications access for educational agencies	\$ 2,600,872
BadgerLink and newslines for the blind	78,400
Telecommunications equipment purchase program (TEPP)	44,744
Lifeline	97,003
Library service contracts	722,090
Nonprofit access grant program	89,700
Second line voice carryover	130
Digital learning collaborative	657,586
Medical telecommunications equipment grant program	32,250
TEPP outreach grant program	65,081
Lifeline outreach grant program	11,230
Broadband expansion grant program	1,657,054
Accounts payable	16,877
Unearned revenues	<u>84,505</u>
 Total liabilities	 <u>6,157,522</u>

Fund Balance

Committed	<u>54,731,983</u>
 Total fund balance	 <u>54,731,983</u>
 Total liabilities and fund balance	 <u>\$ 60,889,505</u>

See notes to financial statements

Universal Service Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Year Ended June 30, 2022

Revenues

Telecommunications providers' assessments for:	
Department of public instruction programs	\$ 24,193,563
Telecommunications access for educational agencies	14,669,667
Public service commission programs	5,948,634
UW system telecommunications services	1,056,714
Interest income	129,717
Telecommunications access for educational agencies co-payments	<u>1,346,633</u>
 Total revenues	 <u>47,344,928</u>

Expenditures

Program expenditures:	
Telecommunications access for educational agencies	14,460,094
Aid to public library systems	18,513,100
BadgerLink and newslines for the blind	3,315,927
Telecommunications equipment purchase program (TEPP)	690,729
Lifeline	654,254
Lifeline outreach grant program	82,472
Library service contracts	1,110,032
UW system telecommunications services	1,037,779
Nonprofit access grant program	349,443
Medical telecommunications equipment grant program	171,823
Second line voice carryover	2,026
Digital learning collaborative	1,000,000
TEPP outreach grant program	463,432
Broadband expansion grant program	19,868,820
PSC administrative expenditures	<u>294,521</u>
 Total expenditures	 <u>62,014,452</u>
 Excess (deficiency) of revenues over expenditures	 <u>(14,669,524)</u>
 Net change in fund balance	 (14,669,524)

Fund Balance, Beginning 69,401,507

Fund Balance, Ending \$ 54,731,983

Public Service Commission of Wisconsin Universal Service Fund

Notes to Financial Statements
June 30, 2022

1. Description of the Universal Service Fund

The Wisconsin Public Service Commission (PSC or 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 PSC to contract with a private firm to administer the USF. Beginning in FY 2016-17, the Commission contracts with Solix, Inc. 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 PSC, 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 2021-22 follows.

Telecommunications Access for Educational Agencies

The Telecommunications Access for Educational Agencies 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 the Information Technology Block Grants program, which provides funding for technology infrastructure for school districts to better use technology for instruction.

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.

Public Service Commission of Wisconsin Universal Service Fund

Notes to Financial Statements
June 30, 2022

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 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 PSC. 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 PSC, 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. Telecommunications providers are reimbursed from the state and federal USF for rate adjustments given to Lifeline customers.

Lifeline Outreach Grant Program

This program, which is administered by the PSC, provides grants to various entity types, including nonprofit organizations, with the goal of increasing awareness of the Lifeline program through education and outreach and research and resources. The program assists low-income customers to obtain affordable access to telecommunications through the Lifeline program which provides a discount on essential telecommunications services.

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 Telecommunications Services

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

Public Service Commission of Wisconsin

Universal Service Fund

Notes to Financial Statements
June 30, 2022

Nonprofit Access Grant Program

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

Second Line Voice Carryover

This program, which is administered by the PSC, 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 PSC, 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
June 30, 2022

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.

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 PSC estimates the revenues needed to pay for the fiscal year's program and administrative costs up to the amounts appropriated by the Legislature. The PSC 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 are invoiced monthly for one-twelfth of the assessed amount. The USF recognizes telecommunications providers' assessments when invoiced. 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.

Telecommunications Access for Educational Agencies Co-Payments

Entities participating in the TEACH program are responsible for a co-payment amount for their monthly service costs for access to Badgernet. Co-payment amounts are based on the level of service provided. Biannually, DOA invoices entities participating in the TEACH program for six months of co-payments. The USF recognizes co-payment revenue when invoiced. Unpaid co-payments as of June 30 are reported on the Balance Sheet as educational telecommunications access program co-payments receivables.

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.

Public Service Commission of Wisconsin

Universal Service Fund

Notes to Financial Statements
June 30, 2022

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, 2022, 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 \$57,337,000 as of June 30, 2022.

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. 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.

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

Notes to Financial Statements
June 30, 2022

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 23 days as of June 30, 2022.

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, Lifeline Outreach Grant Program, TEPP Outreach Grant Program, Broadband Expansion Grant Program and TEACH Grant Program. 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, 2022, the following commitments were included in the committed fund balance:

	<u>June 30, 2022</u>
<u>Program</u>	
TEPP	\$ 368,245
Medical Telecommunications Equipment Grant Program	858,340
Nonprofit Access Grant Program	781,468
Lifeline Outreach Grant Program	65,917
TEPP Outreach Grant Program	216,291
Broadband Expansion Grant Program	26,666,042
TEACH Grant Program	<u>3,588,122</u>
Total	<u>\$ 32,544,425</u>