FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

MISSOURI UNIVERSAL SERVICE BOARD, INC.

For The Years Ended June 30, 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of the Missouri Universal Service Board Inc. (the "Organization") as of June 30, 2008 and 2007, and the related statements of operations and cash flows for the periods then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri Universal Service Board, Inc. as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the periods then ended in conformity with accounting principles generally accepted in the United States.

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

McBride, Lock & Associates
December 12, 2008

MISSOURI UNIVERSAL SERVICE BOARD, INC.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30,

	2008	2007
ASSETS		
Cash and cash equivalents (Note 2)	$ 932,152	$ 318,848
Assessments Receivable (Note 3)	309,895	314,829
Late Fees and Interest Receivable (Note 3)	301	6,830
TOTAL ASSETS	$ 1,242,348	$ 640,507

LIABILITIES AND NET ASSETS

	2008	2007
Liabilities		
Accounts payable (Note 4)	$ 12,909	$ 26,407
Payables to Service Providers (Note 5)	504,713	460,231
Due to Fund Administrator (Note 6)	-	100,367
Total Liabilities	$ 517,622	$ 587,005
Commitments and Contingencies (Note 7)	$ -	$ -
Net Assets:		
Restricted	724,726	53,502
Total Net Assets	$ 724,726	$ 53,502
TOTAL LIABILITIES AND NET ASSETS	$ 1,242,348	$ 640,507

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

MISSOURI UNIVERSAL SERVICE BOARD, INC.
STATEMENT OF OPERATIONS AND CHANGE IN RESTRICTED NET ASSETS
YEAR ENDED JUNE 30,

	RESTRICTED FUNDS	
	2008	**2007**
REVENUE		
Assessments	$ 3,688,105	$ 2,482,994
Interest	13,898	12,032
Penalty Interest Payments	3,021	8,550
Late Fee Payments	4,221	3,126
TOTAL SUPPORT AND REVENUE	$ 3,709,245	$ 2,506,702
OPERATING EXPENSES		
Support Distribution Payments	$ 2,928,478	$ 2,672,180
Commissions and Fees (Note 4)	93,230	50,892
Legal & Professional Fees	16,000	18,000
Bank Charges (Note 4)	313	1,190
TOTAL EXPENSES	$ 3,038,021	$ 2,742,262
NET INCOME/(LOSS)	$ 671,224	$ (235,560)
RESTRICTED NET ASSETS AT BEGINNING OF YEAR	53,502	289,062
RESTRICTED NET ASSETS AT END OF YEAR	$ 724,726	$ 53,502

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

MISSOURI UNIVERSAL SERVICE BOARD, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30,

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 671,224	$ (235,560)
Adjustments to reconcile change in net assets to cash used by operations:		
(Increase) Decrease Assessments Receivable	4,934	2,030
(Increase) Decrease Late Fees/Interest Receivable	6,529	(3,676)
Increase (Decrease) Accounts payable	(13,498)	11,769
Increase (Decrease) Payables to Service Providers	44,482	250,953
Increase (Decrease) Due to Fund Administrator	(100,367)	100,367
NET CASH USED BY OPERATING ACTIVITIES	$ 613,304	$ 125,883
CASH AT BEGINNING OF YEAR	318,848	192,965
CASH AT END OF YEAR	$ 932,152	$ 318,848

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

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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

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

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

NOTE 3 – ASSESSMENTS RECEIVABLE

Assessments are to be paid into the fund on a monthly basis by the 22nd of the next month or on a quarterly basis for contributors with less than $50,000 of jurisdictional revenue each month. The Organization has accrued amounts due for the month and quarter ending June 30, 2008 and 2007. Late payments are assessed at the rate of $16 per filing with interest due at a rate of 1 ½ % of the remittance due. The Organization has accrued estimated amounts due for late fees and interest receivable for the month and quarter ending June 30, 2008 and 2007.

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

A recent analysis of the carriers in the State of Missouri provided indication that potentially over 30 carriers who have net jurisdictional revenue may not have appropriately contributed to the fund during the fiscal year ended June 30, 2008. Similar circumstances may exist in prior fiscal years. Additional analysis is required to ensure that these revenues are susceptible to the assessment. Also, appropriate interest and penalties are also being computed. No provision for these amounts has been made within the financial statements.

NOTE 4 – ACCOUNTS PAYABLE

Accounts payable represents amounts due to the fund administrator, Central Bank for 2nd Quarter of 2008, and QSI Consulting, Inc., for the first and second quarter of 2007 based upon the terms of their contract with the Organization. These costs for the administration of the fund appear as commissions and fees on the statement of operations.

NOTE 5 – PAYABLES TO SERVICE PROVIDERS

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

During the current fiscal year, the Organization changed the timing of remittances to the service providers to address deficiencies in funding. Currently, service provider remittances are made during the first week (usually the 5th) of the second month following the actual support month.

NOTE 6 – DUE TO FUND ADMINISTRATOR

In March of 2007, the fund administrator, QSI Consulting, Inc., entered into a Line of Credit Loan Agreement with Bank of America in order to assist the Organization in addressing deficiencies in funding until the new rate increase could go into effect. Cash infusions from this line of credit were received as follows: $65,000 on March 8, 2007 and $35,000 on May 2, 2007. Costs associated with establishment of this line of credit are also reflected in the balance at June 30, 2007. QSI Consulting, Inc. was responsible for the interest and all costs associated with the establishment of the line of credit until the principal balance is repaid.

In July of 2007, the Organization repaid the amount due to Bank of America on behalf of QSI Consulting, Inc. and deducted the costs associated with the establishment of the line from a subsequent invoice for consulting fees.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

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

<u>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*</u>

The Administrative Office of the U.S. Courts
Washington. D.C.

We have audited the financial statements of Missouri Universal Service Board (the organization) as of and for the year ended June 30, 2008 and have issued our report thereon dated December 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States.

<u>Internal Control Over Financial Reporting</u>

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in the internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organizations internal control. We believe the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Missouri Universal Service Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance (Uncollected Revenues) or other matters that are required to be reported under ***Government Auditing Standards***.

We noted certain matters that we reported to management of Missouri Universal Service Board in a separate letter dated December 12, 2008.

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

McBride, Lock & Associates
December 12, 2008

MISSOURI UNIVERSAL SERVICE BOARD, INC.
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

Uncollected Revenues

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

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

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

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

December 12, 2008

To the Missouri Universal Service Board, In.
Jefferson City, Missouri

In planning and performing our audit of the Missouri Universal Service Board, Inc. for the year ended June 30, 2008, we considered its internal control structure as a basis of designing our auditing procedures for the purpose of expressing an opinion on the financial statements. The Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, dated December 12, 2008, identified a significant deficiency. In addition to that item, the following observations, which resulted from our consideration of internal control, are submitted to assist the Board in improving procedures and controls. These items are considered neither material weaknesses nor significant deficiencies.

Auditing of Carriers

Currently, and audit requirement exists whereby the administrator is to audit 5% of the remitting companies. The administrator determined remitters and receivers and sampled 5 remitters and 5 remitter/receivers. Procedures were established and information was requested from the companies for comparison to records reported for the year ended December 31, 2007. The audit process by the administrator began in April 2008 and the results of the auditing procedures indicated potential problems with NJRs for 2 of the remitting companies. Information was provided to the PSC in August 2008, and follow-up work was performed and disposition documented. Given the error rate and the significance that the monthly information provided by remitting/receiver companies guides the entire operations on the fund, consideration should be given to increase the audit scope and ensure more timely resolution.

Cash Flow Analysis and Appropriateness of Current Assessment

The monthly reporting process includes an analysis of cash flows with projections of future assessments and anticipated support obligations in an effort to determine in advance the adequacy of the current assessment level to meet future funding needs. The board established a cash reserve balance goal of approximately $1.3 million and it was estimated that the goal would be met around the summer of 2009. Based upon the operations of the fund, this reserve amount was basically met by December 31, 2008. Given this and pending the results of follow up action from audit finding #1, the board should evaluate the current assessment rate being applied.

Delinquent Fees and Penalties

Currently, penalties and interest are assessed once it is determined that a company has been delinquent. Our testing noted two instances where penalties were assessed, but no interest was charged. In another instance, no penalty or interest was charged to a company that remitted their November assessment in January. Additionally, when penalties and interest are calculated, there is no additional penalty if such amounts are not received timely. The administrator should work to ensure all penalties and interest are received and in a timely manner.

It should be recognized that our suggestions are constructed form observations made during our examination. We believe that these suggestions have merit, however, they should be evaluated carefully and studied further in reaching a final decision regarding their disposition.

We would welcome the opportunity to discuss these or any other concerns with you in more detail.

Sincerely,

McBride, Lock & Associates