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Director
Universal Service Program Support

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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October 22, 2004

Marlene H. Dortsch
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: TRS Fund Administration
Financial Statements
CC Docket No. 98-67

Dear Ms. Dortsch:

Enclosed herewith are the original and three (3) copies of the financial statements of the TRS fund for the eleventh year of its operation (from July 1, 2003 through June 30, 2004), together with an auditor's report from an independent certified accounting firm, filed in accordance with 47 C.F.R. § 64.604(c)(5)(iii)(D) and (H).

Please acknowledge receipt of this letter and filing by affixing a notation on the duplicate copy of this letter that is enclosed and remitting the duplicate to the bearer.

Very truly yours,

Enclosures

cc: P. Cappello
T. Chandler
W. Hill
J. Keithley
C. King
J. Lande
W. O'Hearn

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WithumSmith+Brown
A Professional Corporation
Certified Public Accountants and Consultants

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served this 22nd day of October, 2004, by mailing copies thereof by United States Mail, first class postage paid, by overnight express mail or by hand delivery, to the persons listed below.


Marjpat Brennan

The following parties were served:

Marlene H. Dortsch*
Office of the Secretary
445 Twelfth St., SW
Room TW-A325
Washington, DC 20554
(Original and three copies)

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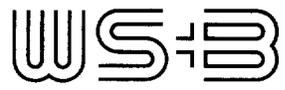
Best Copy & Printing, Inc
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445 Twelfth St., SW, Room CY-B402
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William Hill
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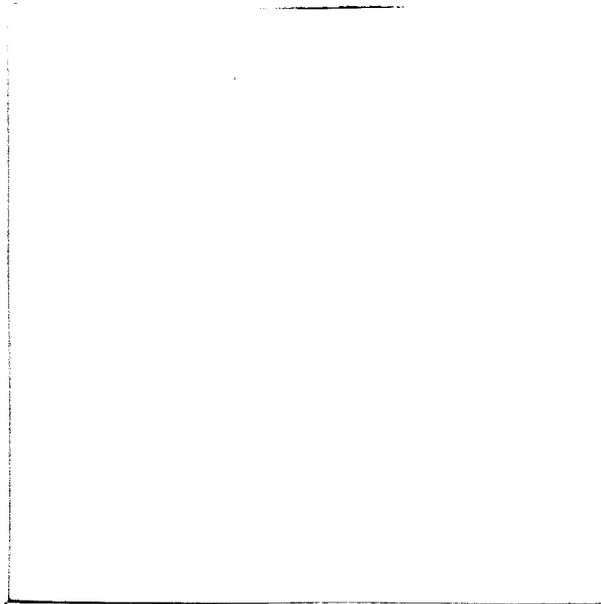
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**TELECOMMUNICATIONS RELAY
SERVICES FUND**

FINANCIAL STATEMENTS

JUNE 30, 2004

**TELECOMMUNICATIONS RELAY SERVICES FUND
CONTENTS TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
National Exchange Carrier Association, Inc.

We have audited the accompanying statement of financial position of the Telecommunications Relay Services Fund (the "TRS Fund") administered by the National Exchange Carrier Association, Inc. (the "Company") as of June 30, 2004, and the related statement of activity and cash flow for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 TRS Fund at June 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Withum Smith + Brown, P.C.

August 6, 2004

**TELECOMMUNICATIONS RELAY SERVICES FUND
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004
(IN THOUSANDS)**

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 35,178
Receivables from contributors, net of allowance for doubtful accounts of \$1,408	1,323
Interest receivable	<u>1</u>
TOTAL ASSETS	\$ <u>36,502</u>
LIABILITIES AND FUND NET ASSET DEFICIENCY	
Current Liabilities:	
Payable to service providers	\$ 39,469
Payable to contributors	483
Accrued expenses	<u>43</u>
Total Current Liabilities	39,995
Fund Net Asset Deficiency-Unrestricted	<u>(3,493)</u>
TOTAL LIABILITIES AND FUND NET ASSET DEFICIENCY	\$ <u>36,502</u>

The Notes to Financial Statements are an integral part of this statement.

**TELECOMMUNICATIONS RELAY SERVICES FUND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)**

Operating Income:	
Contributions	\$ 170,851
Interest income	149
Total Operating Income	<u>171,000</u>
Operating Expenses:	
Amounts paid and due to service providers	160,431
Uncollectible contributions	664
Administrative costs	602
Total Operating Expenses	<u>161,697</u>
Net Increase in Unrestricted Fund Net Asset	9,303
Fund Net Asset Deficiency-Unrestricted, Beginning of Year	<u>(12,796)</u>
Fund Net Asset Deficiency-Unrestricted, End of Year	<u>\$ (3,493)</u>

The Notes to Financial Statements are an integral part of this statement.

TELECOMMUNICATIONS RELAY SERVICES FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004
(IN THOUSANDS)

Cash flows from Operating Activities:	
Cash received from contributors	\$ 169,637
Cash received from interest	150
Cash paid to service providers	(146,597)
Cash paid for administrative costs	<u>(599)</u>
Net Cash Provided By Operating Activities	22,591
Cash and Cash Equivalents, Beginning of Year	<u>\$ 12,587</u>
Cash and Cash Equivalents, End of Year	<u>\$ 35,178</u>
Reconciliation of Net Assets to Net Cash Provided By Operating Activities:	
Change in Net Assets	\$ 9,303
Provision for uncollectible accounts	171
Net changes in assets and liabilities:	
Increase in receivable from contributors	(1,203)
Decrease in interest receivable	1
Increase in payable to service providers	13,834
Increase in payable to contributors	482
Increase in accrued expenses	<u>3</u>
Net Cash Provided By Operating Activities	<u>\$ 22,591</u>

The Notes to Financial Statements are an integral part of this statement.

TELECOMMUNICATIONS RELAY SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(IN THOUSANDS)

Note 1 - General:

The Telecommunications Relay Service Fund (the "TRS Fund") is a not-for-profit fund established by the Federal Communications Commission (the "FCC") in 1993, in accordance with Title IV of the Americans With Disabilities Act, which required nationwide Telecommunications Relay Services ("TRS"). Traditional TRS services allow people with hearing and/or speech disabilities who use text telephones to talk with people who use standard telephones. In a March 2000 Report and Order, the FCC added Speech to Speech ("STS") to the list of required TRS services. STS involves the use of specially trained Communications Assistants who understand the speech patterns of persons with speech disabilities. In the same March 2000 Order, the FCC encouraged the offering of Video Relay Service ("VRS") to make it easy for a sign language user to make a TRS call. VRS allows a person using sign language to communicate visually with an interpreter at the VRS center instead of using a text telephone to converse with a Communications Assistant. In April 2002, the FCC authorized reimbursement of Internet Protocol ("IP") Relay Services. IP relay users access the service via the Internet.

The FCC named the National Exchange Carrier Association, Inc. ("NECA" or "the Company") as administrator of the TRS Fund. NECA has been appointed to serve as the administrator through July 25, 2003 (Memorandum Opinion and Order, CC Docket No. 90-571 released July 1, 1999). On July 11, 2003, NECA's term was extended by the FCC on a month-to-month basis until terminated in writing by them.

TRS funds are collected from all common carriers providing interstate services and distributed monthly to qualified relay service providers ("service providers"). The annual contribution factor is developed by NECA and approved by the FCC based upon estimates of the revenue requirements necessary to provide services in the upcoming 12-month period. The factor is determined by taking into consideration the projected funding requirements of providing interstate TRS and STS, intrastate and interstate VRS and IP Relay Services, an uncollectible allowance of 10% and any fund surplus/shortfall which is carried over from the prior year.

The common carriers' annual contribution factor, approved by the FCC, was .00149 per each dollar of interstate revenue reported by the common carriers for the year ended June 30, 2004. The annual contribution factor for the year ended June 30, 2004 was subsequently increased, retroactive to the beginning of the measurement period, to .00220 per each dollar of interstate revenue reported by the common carriers. This increase was due to significant growth over projection of IP and VRS minutes. For the year ending June 30, 2005, the contribution factor has been increased to .00356 per each dollar of interstate revenue. The common carriers' contributions are shown on the statement of activity as "contributions" as prescribed by the FCC in Part 64 of Title 47 of the Code of Federal Regulations.

The FCC rules permit common carriers to file their monthly remittances disclosing their revenues on a cash basis. The "receivables from contributors" on the statement of financial position, as well as the "contributions" on the statement of activity reflect the contributions based on revenues that are reported by the common carriers on a cash basis.

Payments to service providers for TRS, STS, VRS and IP Relay Services are based on the conversation minutes, as submitted by the service providers, multiplied by a rate per minute as calculated by NECA and approved by the FCC. The rate per minute is an average rate among all service providers and is calculated based on the total estimated costs to provide each service divided by the total expected conversation minutes to be provided.

**TELECOMMUNICATIONS RELAY SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(IN THOUSANDS)**

Note 1 - General (Cont'd):

The following table illustrates the rates in effect during the reporting period and for the subsequent year:

	<u>TRS</u>	<u>STS</u>	<u>VRS</u>	<u>IP RELAY SERVICES</u>
7/1/04-6/30/05	\$1.349	\$1.440	\$7.293	\$1.349
9/1/03-6/30/04	1.368	2.445	8.854	1.368
7/1/03-8/31/03	1.368	2.445	7.751	1.368

During the past few years, the growth of traditional TRS service had slowed. Actual minutes reported and reimbursed were less than projected and a sizeable balance accumulated each year. This balance was used to reduce the funding requirement in the following period. In 2002, two new relay services, VRS and IP, were offered. All VRS and IP minutes are reimbursed from the interstate TRS fund. The introduction and growth of these national services outdistanced the projections and caused a negative fund balance at June 30, 2003. Management believes they have reflected sufficient margin in the calculation of contribution factor for the year ending June 30, 2005, to address the net assets shortfall.

Note 2 - Summary of Significant Accounting Policies:

A. Basis of Presentation

These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

B. Use of 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

C. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid instruments with an original maturity when purchased of three months or less.

D. Allowance for Doubtful Accounts

Allowance for doubtful accounts amounted to \$1,408 at June 30, 2004 to provide for anticipated uncollectible amounts from certain carriers. Uncollectible contributions of \$493 were written off during the year ended June 30, 2004.

E. Retroactive Billing Adjustments

Contributors to TRS are permitted to revise their revenue data, which may result in adjustments to amounts previously billed. The Company has recorded these adjustments in current period billings rather than reflecting these adjustments in the period in which they pertain. Management does not believe that the impact of these adjustments is material to the financial statements.

**TELECOMMUNICATIONS RELAY SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(IN THOUSANDS)**

Note 3 - Administrative Costs:

Administrative costs consist of the following for the year ending June 30, 2004:

Direct labor costs	\$ 155
NECA allocated common costs	285
Miscellaneous	72
Consultants	15
Data collection agent	64
Travel	11
Total administrative costs	<u>\$ 602</u>

NECA administrative costs charged to the TRS Fund are allocated in accordance with NECA's Cost Accounting and Procedures Manual ("CAM") filed with and approved by the FCC. NECA annually submits a Statement of Cost Allocation System Compliance to the FCC for which a schedule of costs incurred by category (including the TRS Fund) is attached. NECA has independent auditors review their cost allocation procedures to ensure such procedures are in compliance with the CAM. The latest audit report issued was dated June 1, 2004 and covers the year ended December 31, 2003.

Costs for NECA personnel specifically assigned to the TRS Fund such as salaries, benefits and travel are directly charged to the TRS Fund. Common costs are accumulated in defined cost pools and allocated on a monthly basis to the TRS Fund using activity based cost drivers as further described in NECA's CAM. These costs include legal, auditing, finance, information systems, facilities and general overheads.

Beginning on January 1, 2000, NECA, under contract with the Universal Service Administrative Company, has acted as the Data Collection Agent ("DCA") for the TRS Fund and other FCC established programs. As the DCA, NECA collects revenue information from interstate telecommunications service providers on FCC Form 499-A and allocates the cost associated with the collection process to the various programs. During fiscal 2004 TRS was allocated 8% of total DCA expenses.

Note 4 - Taxes:

The TRS Fund was established in accordance with the Americans with Disabilities Act directed by the FCC and therefore not subject to Federal or state income, sales, use, gross receipts or other taxes. As such, no provision for such taxes has been reflected in the accompanying financial statements.

Note 5 - Contingencies:

Included in payable to service providers are amounts claimed by Publix Network Corp. ("Publix") pending settlement of litigation between Publix and the Department of Justice. Amounts claimed at June 30, 2004 are \$2,381. These monies will continue until the pending litigation is resolved.

Note 6 - Concentrations:

The TRS Fund maintains their cash balances at financial institutions, which may at times exceed amounts insured by the Federal Deposit Insurance Corporation. Since these are high quality financial institutions, management does not believe the TRS Fund is exposed to any risk on cash balances.