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MAR - 9 2006

Federal Communications Commission
Office of Secretary

March 8, 2006

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. 03-123

Dear Ms. Dortsch:

Enclosed herewith are the original and three (3) copies of the financial statements of the TRS Fund from July 1, 2004 through September 30, 2004, and from October 1, 2004 through September 30, 2005, together with an auditor's report from an independent certified accounting firm. The audits cover fifteen months because of the change in the TRS Fund fiscal period from July through June to October through September to be coincident with the FCC's fiscal year.

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,

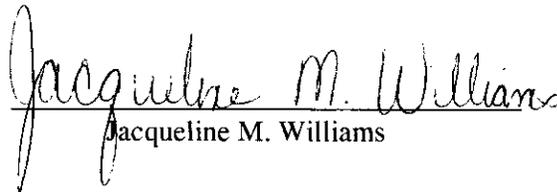
Enclosures

- cc: M. Desai
- J. Keithley
- T. Chandler
- C. King
- A. Mulitz
- M. Reger
- M. Smith
- S. Rickrode
- C. Barror

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served this 8th day of March, 2006, 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.


Jacqueline M. Williams

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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* Hand delivered



**TELECOMMUNICATIONS RELAY
SERVICES FUND**

Financial Statements

September 30, 2004

With Independent Auditors' Report

Telecommunications Relay Services Fund
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September 30, 2004

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Independent Auditors' Report

To 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 September 30, 2004, and the related statement of activity and cash flow for the period July 1, 2004 through September 30, 2004. 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 September 30, 2004, and the changes in its net assets and its cash flows for the period then ended in conformity with accounting principles general accepted in the United States of America.

WithumSmith+Brown, P.C.

January 16, 2006

Telecommunications Relay Services Fund
Statement of Financial Position
September 30, 2004
(in thousands)

Assets

Current assets		
Cash and cash equivalents	\$	42,850
Investments in US Treasury Securities, net of discount and amortization		20,002
Receivable from contributors, less allowance for doubtful accounts of \$2,551		2,061
Interest receivable		<u>2</u>
Total current assets		64,915
	\$	<u>64,915</u>

Liabilities and Fund Net Assets

Current liabilities		
Payable to service providers	\$	20,885
Payable to contributors		622
Accrued expenses		70
Deferred revenue		<u>30,000</u>
Total current liabilities		51,577
Fund net assets-unrestricted		<u>13,338</u>
	\$	<u>64,915</u>

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

Telecommunications Relay Services Fund
Statement of Activities
Three Months Ended September 30, 2004
(in thousands)

Operating revenue	
Contributions	\$ 71,002
Interest income	191
	<u>71,193</u>
Operating expenses	
Amounts paid and due to service providers	53,018
Uncollectible contributions	1,145
Administrative costs	199
	<u>54,362</u>
Net increase in unrestricted fund net assets	16,831
Fund net asset deficiency-unrestricted, beginning of year	<u>(3,493)</u>
Fund net assets-unrestricted, end of year	<u>\$ 13,338</u>

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

Telecommunications Relay Services Fund
Statement of Cash Flows
Three Months Ended September 30, 2004
(in thousands)

Cash flows from operating activities

Cash received from contributors	\$ 99,258
Cash received from interest	191
Cash paid to service providers	(71,602)
Cash paid for administrative costs	<u>(173)</u>
Net cash provided by operating activities	27,674

Cash flows from investing activities

Purchase of US Treasury Securities	<u>(20,002)</u>
------------------------------------	-----------------

Increase in cash and cash equivalents	7,672
---------------------------------------	-------

Cash and cash equivalents

Beginning of Year	<u>35,178</u>
End of Year	<u>\$ 42,850</u>

Reconciliation of net assets to net cash provided by operating activities:

Change in net assets	\$ 16,831
Provision for uncollectible accounts	1,143
Net changes in assets and liabilities:	
Increase in receivable from contributors	(1,881)
Increase in interest receivable	(1)
Decrease in payable to service providers	(18,584)
Increase in payable to contributors	139
Increase in accrued expenses	27
Increase in deferred revenue	<u>30,000</u>
Net cash provided by operating activities	<u>\$ 27,674</u>

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

Telecommunications Relay Services Fund
Notes to Financial Statements
September 30, 2004
(in thousands)

1. Organization

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. In August 2003, the FCC determined eligible providers of captioned telephone VCO service ("CTV") are eligible to be reimbursed for interstate minutes.

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 (including CTV) and STS, intrastate and interstate VRS and IP Relay Services, an uncollectible allowance of 10%, interest income, and any fund surplus/shortfall which is carried over from the prior year.

The common carriers' annual contribution factor, approved by the FCC, was .00356 per each dollar of interstate revenue reported by the common carriers for the period July 1, 2004 through June 30, 2005. The common carriers' contributions are shown on the statement of activities as "contributions" as prescribed by the FCC in Part 64 of Title 47 of the Code of Federal Regulations.

The FCC rules require common carriers to file their 499A reporting their revenues annually. The "receivable from contributors" on the statement of financial position, as well as the "contributions" on the statement of activities reflect the contributions based on revenues that are reported by the common carriers.

Payments to service providers for TRS (including CTV), STS, CTS, 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.

The following table illustrates the rates in effect during the reporting period.

<u>TRS</u>	<u>STS</u>	<u>VRS</u>	<u>IP RELAY SERVICES</u>
\$1.398	\$1.596	\$7.596	\$1.398

Telecommunications Relay Services Fund
Notes to Financial Statements
September 30, 2004
(in thousands)

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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

Cash and cash equivalents consist of cash and money market funds with an original maturity when purchased of three months or less.

Investments

Treasury Securities are considered held to maturity investments, regardless of original maturity when purchased.

Allowance for Doubtful Accounts

Allowance for doubtful accounts amounted to \$2,551 at September 30, 2004 to provide for anticipated uncollectible amounts from certain carriers. Uncollectible contributions of \$2 were written off during the period July 1, 2004 through September 30, 2004.

Revenue Recognition

Carriers contributing into the TRS Fund, file Form 499-A with the Data Collection Agent ("DCA"). The Form 499-A reports the carrier's interstate revenue. This information is used to compute the carrier's contribution for the funding year based upon the FCC approved contribution factor. The 2004 Form 499-A computes TRS Fund contributions for the period July 1, 2004 through June 30, 2005. Carriers must submit their contribution in July for the entire year, unless the annual contribution exceeds one thousand two hundred dollars, which allows the carrier the option to remit payment on a straight line monthly basis.

TRS recognizes revenue on a monthly basis to match monthly minute reimbursements to service providers.

During the three month period ended September 30, 2004, the TRS fund recognized three months of required contributions for those carriers who elected to remit monthly. The TRS Fund also recognized 3 months of the total required contribution for those carriers who were required to remit their annual payment, and the remaining 9 months of the required contribution is reflected in deferred revenue. Deferred revenue totaled approximately \$30,000 at September 30, 2004.

Retroactive Billing Adjustments

Contributors to TRS are permitted to revise their revenue data, which may result in adjustments to amounts previously billed. The TRS Fund has recorded these adjustments in current period billings rather than reflecting these adjustments in the period in which they pertain. Likewise, certain adjustments affecting contributions to the TRS Fund may happen subsequent to the financial statement date. These adjustments are recorded and recognized in subsequent period or periods. The current period financial statements reflect known adjustments occurring within one month subsequent to period end.

Telecommunications Relay Services Fund
Notes to Financial Statements
September 30, 2004
(in thousands)

3. Administrative Costs

Administrative costs consist of the following for the three month period ending September 30, 2004:

Direct labor costs	\$	50
NECA allocated common costs		98
Miscellaneous		26
Consultants		7
Data collection agent		16
Travel		2
Total administrative costs	\$	<u>199</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 March 14, 2005 and covers the year ended December 31, 2004.

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 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.

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.

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 September 30, 2004 are \$2,381.

6. Concentrations

The TRS Fund periodically maintains 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.

Telecommunications Relay Services Fund
Notes to Financial Statements
September 30, 2004
(in thousands)

7. Investments

The following summarizes Investments as of September 30, 2004:

Marketable Securities:	<u>Maturity Value</u>	<u>Discount</u>	<u>Amortized Discount</u>	<u>Amortized Cost</u>	<u>Market Value Disclosure</u>
Treasury Bills	\$ 20,012	(\$ 10)	--	\$ 20,002	\$ 20,002

The investment portfolio as of September 30, 2004 consists of one Treasury Bill with an original maturity of less than 90 days, and includes interest at a rate of 1.31%. The TRS Fund recognizes interest income based upon straight line amortization. All Treasury securities, regardless of the original maturity date, are reported as Investments. The TRS Fund generally expects to hold investments to maturity; therefore, no adjustments have been made to present market values.

**TELECOMMUNICATIONS RELAY
SERVICES FUND**

Financial Statements

September 30, 2005

With Independent Auditors' Report

Telecommunications Relay Services Fund
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September 30, 2005

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Management's Discussion and Analysis

Overview of NECA

INTRODUCTION

This Performance and Accountability Report ("PAR" or "report") contains management and financial information about the National Exchange Carrier Association's ("NECA") administration of the Interstate Telecommunications Relay Services ("TRS") Fund.

Management's Discussion and Analysis includes an overview of NECA; an overview of the TRS Fund Fiscal Year 2005; and support for the Supplemental Schedule. TRS financial statements for FY 2005 and notes to the financial statements complete the PAR.

ABOUT NECA AND THE TRS FUND

The Federal Communications Commission (FCC) formed NECA in 1983 to perform telephone industry tariff filings and revenue distributions following the breakup of AT&T. NECA is a not-for-profit corporation responsible under Subpart G of the Commission's Part 69 rules for administering interstate access charge pools for participating local exchange carriers (LEC) and the TRS Fund.

Access charges are the fees long distance companies pay to access the local phone network to complete calls. These charges help ensure that telephone service remains available and affordable in all parts of the country. NECA manages the distribution of these interstate access revenues through revenue pooling. More than 1,000 LECs voluntarily participate in NECA's access charge revenue pools. NECA provides the following services to these companies:

- Files access charge tariffs with the FCC
- Collects and validates cost and revenue data
- Ensures compliance with FCC rules
- Distributes revenues from access charges among pool members, based on each company's costs of providing interstate access
- Collects and submits FCC regulatory fees
- Offers training and education on a wide variety of telecom topics

In 1993, NECA was appointed administrator of the TRS Fund because of its experience in administering the access pool, including the Universal Service Fund and Lifeline Assistance programs, and because of many positive comments received in support of NECA during the shared funding rulemaking process. The FCC reappointed NECA twice, in 1995 and 1999. In 2003, the FCC extended NECA's term on a month-to-month basis.

NECA administers the TRS Fund under the FCC's direction. The TRS Fund compensates relay service providers for the reasonable costs of offering services that enable a person with a hearing or speech disability to communicate with a person without such a disability. The costs of providing relay services are recovered from subscribers of interstate telecommunications services through a shared funding cost recovery mechanism.

NECA is headquartered in Whippany, NJ with seven regional offices located throughout the nation.

NECA's Board of Directors has 15 members. Ten Directors represent three membership divisions and five represent all members (outside Directors). FCC rules established the Board size and the representative groupings, which are as follows:

- Subset 1** Bell Operating Companies, two representatives
- Subset 2** Other telephone companies with revenues of \$40 million or more, two representatives
- Subset 3** All remaining telephone companies, six representatives
- Outside** Non-telephone Directors representing all subsets, five representatives

NECA TRS REPORTING STRUCTURE

Three staff members in the Universal Service Program Support directorate of NECA's Operations Department are dedicated solely to the day-to-day administration of the TRS Fund. Their primary responsibilities are provider cost and demand data analysis, provider reimbursement, carrier contribution management, and financial reporting. In addition, personnel in the Financial Operations and General Accounting and Tax groups in the Finance Department support the billing, collection, disbursement and reporting functions related to the Fund.

INTERSTATE TRS FUND, Fiscal Year 2005

The audit of FY 2005 covers the period from October 1, 2004 through September 30, 2005. The current funding period for the TRS Fund is July of one year through June of the following year. In mid-2004, NECA requested and the FCC approved the change of the fiscal period from July – June, coincident with the funding period, to October – September, coincident with the FCC's fiscal year. This step was taken to facilitate the effort associated with the audit of the TRS Fund as part of the FCC's financial statements, performed annually between February and October; July 1, 2004 through September 30, 2004 was audited separately.

The TRS Fund continued its unprecedented growth from a fund size of \$90 million for the 2002 – 2003 funding period to \$170.5 million for 2003 – 2004, \$289 million for 2004 – 2005 and \$441.5 million for 2005 – 2006. This growth is directly attributable to FCC decisions related to the reimbursement of Internet Protocol (IP) and Video Relay Service (VRS) minutes. Prior to the introduction of those services, only interstate and international traditional TRS and Speech-to-Speech (STS) minutes were reimbursable from the TRS Fund. When the FCC authorized reimbursement of IP and VRS, it was for all minutes.

Traditional TRS minutes grew steadily from the TRS Fund's inception in 1993 through 1998 but minute growth was basically flat between 1999 to 2001, beginning each year with 2.8 – 2.9 million minutes and ending with 2.7 – 2.8 million minutes. In January 2002, 2.9 million traditional TRS minutes were reported. In December 2002, after the introduction of VRS and IP, only 2.3 million traditional TRS minutes were reimbursed. Traditional TRS minutes reported in September, the last month of FY 2005, totaled only 1.53 million compared to 6.5 million IP and 2.6 million VRS minutes.

Although the FCC authorized the reimbursement of all VRS minutes on a temporary basis in a March 2000 Report and Order, it was not until the FCC granted requests for waivers of certain VRS requirements in a December 31, 2001 Order that providers began to offer the service. The number of providers grew from two in January 2002 to eight in December 2004. During FY 2005, there were more VRS providers than traditional TRS providers.

In April 2002, the FCC approved the reimbursement of all IP Relay minutes from the Interstate TRS Fund. Because there was no automatic means to determine whether a call made via IP Relay was intrastate or interstate, the FCC authorized the recovery of all costs associated with providing the service from the TRS Fund on an interim basis. In March 2003, the FCC directed NECA not to pay for IP Relay minutes placed to international locations due to the apparent fraudulent use of the service discovered by NECA. Six providers offered IP Relay during FY 2005.

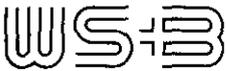
**SUPPLEMENTAL SCHEDULE – Program Costs and Unaudited Budget
(in Thousands)**

Monthly provider reimbursement projections are developed after determining the growth rates for each of the four relay services – interstate traditional TRS, STS, IP and VRS – in April each year in conjunction with the annual fund filing. The monthly projections for each service are multiplied by the per minute reimbursement rate for each and added together to arrive at the total monthly projection. For FY 2005, provider reimbursement projections totaled \$293,221; actual reimbursement was \$297,486 for a difference of (\$4,265).

Two reimbursement true-ups of \$3,585 and \$7,894 respectively, not anticipated in the projections, occurred during FY 2005 and contributed to the difference. The January 2005 true-up of \$3,585 was due to an FCC Order increasing certain per minute reimbursement rates and applied to all providers. Another FCC Order authorized the March 2005 true-up of \$7,894 that reimbursed a single provider for minutes processed but not previously paid.

Administrative expenses increased \$253 over projection primarily because of the addition of a full time TRS staff member with associated salary and benefits, and additional expenses in the area of billing and collections.

Uncollectibles have decreased significantly during FY 2005 due to increased collection efforts and the impact of the implementation of the Red Light Rule portion of the Debt Collection Improvement Act (DCIA). Under the Red Light Rule, the FCC will not fulfill the requests of any carrier who has not paid its contribution to the TRS Fund. Carriers are also more aware that their delinquency will be transferred to the FCC if it is not paid within ninety days following the payment due date.



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Independent Auditors' Report

To the Board of Directors,
National Exchange Carrier Association, Inc.

We have audited the balance sheet of the Telecommunications Relay Services Fund (the "TRS Fund") administered by the National Exchange Carrier Association, Inc. (the "Company") as of September 30, 2005, and the related statements of net cost and changes in net position 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; 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 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 September 30, 2005, and its net cost, and changes in net position for the year then ended in conformity with accounting principles general accepted in the United States of America.

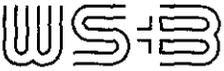
In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2006 on our consideration of the TRS Fund's internal control over financial reporting, and on our tests of the TRS Fund's compliance with certain provisions of laws and regulations. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Discussion and Analysis and Supplemental Schedule – Program Costs and Unaudited Budget is not a required part of the basic financial statements but is supplementary information in accordance with Office of Management and Budget Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, as applicable. We have applied certain limited procedures to such information, which consisted principally of inquiries of the TRS Fund's management regarding the methods of measurement and presentation of the supplemental schedule. However, we did not audit the information and express no opinion on it.

William Smith + Brown, P.C.

Princeton, New Jersey
January 17, 2006



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Certified Public Accountants and Consultants

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Additional Offices in New Jersey
and Pennsylvania

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

To the Board of Directors,
National Exchange Carrier Association, Inc:

We have audited the financial statements of the Telecommunications Relay Services Fund (the "TRS Fund") as of and for the year ended September 30, 2005, and have issued our report thereon dated January 17, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered National Exchange Carrier Association's (NECA's) internal control, in its role as administrator of the TRS Fund, over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TRS Fund's financial statements are free of material misstatement, we performed tests of compliance of NECA as administrator for the TRS Fund with certain provisions of laws, regulations and contracts, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of NECA and the Federal Communications Commission and is not intended to be and should not be used by anyone other than these specified parties.

WithumSmith+Brown, P.C.

January 17, 2006

Telecommunications Relay Services Fund
Balance Sheet
September 30, 2005
(in thousands)

Assets

Cash and other monetary assets	\$	113
Investments in United States Treasury Securities, net of discount and amortization		95,242
Accounts receivable, net		<u>2,241</u>
Total Assets	\$	<u>97,596</u>

Liabilities

Accrued liabilities	\$	28,538
Deferred revenue		32,503
Prepaid contributions		369
Accounts payable		<u>60</u>
		61,470

Net Position

Cumulative results of operations		<u>36,126</u>
Total Liabilities and Net Position	\$	<u>97,596</u>

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

Telecommunications Relay Services Fund
Statement of Net Cost
For the Year Ended September 30, 2005
(in thousands)

Program Costs:

Provider Reimbursements	\$ 297,486
Administrative Expenses	745
Uncollectibles	<u>13,784</u>
Total costs	<u>312,015</u>

Net Cost of Operations **\$ 312,015**

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

Telecommunications Relay Services Fund
Statement of Changes in Net Position
For the Year Ended September 30, 2005
(in thousands)

Cumulative Results of Operations - Beginning Balance	\$ 13,338
Financing Sources:	
Carrier contributions	332,985
Interest revenue	1,633
Other	<u>185</u>
Total Financing Sources	348,141
Less: Net Cost of Operations	<u>312,015</u>
Cumulative Results of Operations - Ending Balance	<u>\$ 36,126</u>

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

Telecommunications Relay Services Fund
Notes to Financial Statements
September 30, 2005
(in Thousands)

1. Reporting Entity

The sole reporting component is the Telecommunications Relay Service Fund (the "TRS 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 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 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. In August 2003, the FCC determined eligible providers of Captioned Telephone VCO service ("CTV") are eligible to be reimbursed for interstate minutes.

The FCC named the National Exchange Carrier Association, Inc. ("NECA" or "the Company") as administrator of the TRS Fund. NECA was 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 (including CTV) and STS, intrastate and interstate VRS and IP Relay Services, an uncollectible allowance of 10%, interest income, and any fund surplus/shortfall which is carried over from the prior year.

The common carriers' annual contribution factor, approved by the FCC, was .00356 per each dollar of interstate revenue reported by the common carriers for the period July 1, 2004 through June 30, 2005, and .00564 per each dollar of interstate revenue reported by the common carriers for the period July 1, 2005 through June 30, 2006. The common carriers' contributions are shown on the statement of changes in net position as "carrier contributions" as prescribed by the FCC in Part 64 of Title 47 of the Code of Federal Regulations.

The FCC rules require common carriers to file their Form 499-A reporting their revenues annually. The "accounts receivable" on the balance sheet, as well as the "carrier contributions" on the statement of changes in net position reflect the contributions based on revenues that are reported by the common carriers.

Payments to service providers for TRS (including CTV), STS, CTS, VRS and IP Relay Services are based on 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 total estimated costs to provide each service divided by total expected conversation minutes to be provided.

The following table illustrates the rates in effect during the reporting period.

	<u>TRS</u>	<u>STS</u>	<u>VRS</u>	<u>IP RELAY SERVICES</u>
7/1/04-6/30/05	\$1.398	\$1.596	\$7.596	\$1.398
7/1/05-6/30/06	\$1.440	\$1.579	\$6.644	\$1.278

Telecommunications Relay Services Fund
Notes to Financial Statements
September 30, 2005
(in Thousands)

2. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared in accordance with U.S. Federal generally accepted accounting principles and the form and content for entity financial statements specified by the Office of Management and Budget in Office of Management and Budget (OMB) Bulletin No. 01-09, as applicable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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

Cash and cash equivalents consist of cash and money market funds, at several financial institutions, with an original maturity when purchased of three months or less.

Investments

Treasury Securities are considered held to maturity investments, regardless of original maturity when purchased. Investments are reported at amortized cost.

Allowance for Doubtful Accounts

Allowance for doubtful accounts amounted to \$13,943 at September 30, 2005 to provide for anticipated uncollectible amounts from certain carriers. Uncollectible contributions of \$2,392 were written off during the period October 1, 2004 through September 30, 2005.

Revenue Recognition

Carriers contributing into the TRS Fund, file Form 499-A with the Data Collection Agent ("DCA"). The Form 499-A reports the carrier's interstate and international revenue. This information is used to compute the carrier's contribution for the funding year based upon the FCC approved contribution factor. The Form 499-A computes TRS Fund contributions for the period July 1, through June 30, of the subsequent year. Carriers must submit their contribution in July for the entire year, unless the annual contribution exceeds one thousand two hundred dollars, which allows the carrier the option to remit payment on a straight line monthly basis.

The TRS Fund recognizes revenue on a monthly basis to match monthly minute reimbursements to service providers.

During the year ended September 30, 2005, the TRS fund recognized three months of required contributions for those carriers who elected to remit monthly for the 2005-2006 funding period. The TRS Fund also recognized 3 months of the total required contribution for those carriers who were required to remit their annual 2005-2006 funding period payment, and the remaining 9 months of the required contribution is reflected in deferred revenue. Deferred revenue at September 30, 2005 was \$32,503.

Retroactive Billing Adjustments

Contributors to TRS are permitted to revise their revenue data, which may result in adjustments to amounts previously billed. The TRS Fund has recorded these adjustments in current period billings rather than reflecting these adjustments in the period in which they pertain. Likewise, certain adjustments affecting contributions to the TRS Fund may happen subsequent to the financial statement date. These adjustments are recorded and recognized in subsequent period or periods. The current period financial statements reflect known adjustments occurring within one month subsequent to period end.

Telecommunications Relay Services Fund
Notes to Financial Statements
September 30, 2005
(in Thousands)

3. Administrative Expenses

Administrative expenses for the year ended September 30, 2005 follows:

Direct labor costs	\$ 280
NECA allocated common costs	328
Miscellaneous	51
Consultants	28
Data collection agent	47
Travel	11
Total administrative costs	<u>\$ 745</u>

NECA administrative expenses 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 annually. 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 its cost allocation procedures to ensure such procedures are in compliance with the CAM. The latest audit report issued was dated March 14, 2005 and covers the year ended December 31, 2004.

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 ("USAC"), acted as the DCA for the TRS Fund. As the DCA, NECA collected revenue information from interstate telecommunications service providers on FCC Form 499-A and allocated the cost associated with the collection process to the various programs. For the period October 1, 2004 through December 31, 2004 TRS was allocated 8% of total DCA expenses. For the period January 1, 2005 through September 30, 2005, USAC performed the DCA function and TRS paid USAC 8% of total DCA expenses.

4. Publix Contingency

On March 15, 2005 the FCC released a Consent Order, FCC 05M-12, which approved the Consent Decree between the Enforcement Bureau of the FCC and the Publix Companies. The Decree ordered Publix to return past provider reimbursements totaling \$7,964. This amount was fully reserved and included in uncollectibles. In addition, Publix agreed to pay restitution totaling \$2,000, of which \$1,900 is reserved and included in uncollectibles.

The TRS Fund was released from the Publix claim for provider reimbursement totaling \$2,381.

5. 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.

6. Concentrations

The TRS Fund periodically maintains cash balances at various financial institutions, and 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.

Telecommunications Relay Services Fund
Notes to Financial Statements
September 30, 2005
(in Thousands)

7. Investments

The following summarizes Investments as of September 30, 2005:

Marketable Securities:	<u>Maturity Value</u>	<u>Discount</u>	<u>Amortized Discount</u>	<u>Amortized Cost</u>	<u>Market Value Disclosure</u>
Treasury Bills	\$ 96,000	(\$ 997)	239	\$ 95,242	\$ 95,275

The investment portfolio as of September 30, 2005 consists of several Treasury Bills with an original maturity ranging from 90 days to 153 days, and includes interest at a rate ranging from to 3.44% to 3.54%. The TRS Fund recognizes interest income based upon straight line amortization. All Treasury securities, regardless of the original maturity date, are reported as Investments. The TRS Fund generally expects to hold investments to maturity; therefore, no adjustments have been made to present market values.

SUPPLEMENTARY INFORMATION

Telecommunications Relay Services Fund
Supplemental Schedule - Program Costs and Unaudited Budget
For the Year Ended September 30, 2005
(in thousands)

Program Costs:	<u>Actual</u>	<u>Unaudited Budget</u>	<u>Over/(Under) Budget</u>
Provider reimbursements	\$ 297,486	\$ 293,221	\$ 4,265
Administrative expenses	745	492	253
Uncollectibles	<u>13,784</u>	<u>30,300</u>	<u>(16,516)</u>
Total costs	<u>312,015</u>	<u>324,013</u>	<u>(11,998)</u>
Net Cost of Operations	<u>\$ 312,015</u>	<u>\$ 324,013</u>	<u>\$ (11,998)</u>

See Independent Auditor's Report.