



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

Independent Accountants' Report

The Board of Directors
Verizon Communications Inc.:

We have examined management's assertion, included in the accompanying *Report of Management on Compliance with Applicable Requirements of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications Commission's Rules and Regulations*, that Verizon Communications Inc. ("Verizon" or "the Company") complied with 47 C.F.R. Sections 64.1310(a)(1), 64.1320(c) and 64.1320(d) of the Federal Communications Commission's ("FCC") Rules and Regulations and related requirements contained in CC Docket No. 96-128 as of June 29, 2012. Management is responsible for the Company's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the Company's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

In our opinion, management's assertion, that the Company complied with the aforementioned requirements as of June 29, 2012, is fairly stated in all material respects.

This report is intended solely for the information and use of the Company, the FCC, and applicable Facilities-Based Long Distance Carriers and Payphone Service Providers and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 29, 2012

**Report of Management on Compliance with Applicable Requirements
of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

Management of Verizon Communications Inc.¹ ("Verizon" or the "Company") is responsible for establishing and maintaining the internal controls over its pay telephone call tracking system necessary for compliance with 47 C.F.R. Sections 64.1310(a)(1), 64.1320(c), and 64.1320(d) of the Federal Communications Commission's ("FCC") Rules and Regulations and related requirements contained in CC Docket No. 96-128, regarding *The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*.

Management has evaluated the Company's compliance with the applicable requirements of 47 C.F.R. Section 64.1310(a)(1), using the criteria in 47 C.F.R. Section 64.1320(c) of the FCC's Rules and Regulations as the framework for the evaluation. Based on this evaluation, we assert that as of June 29, 2012, the Company complies with the applicable requirements of 47 C.F.R. Sections 64.1310(a)(1), 64.1320(c), and 64.1320(d) in all material respects as described below. Verizon has disclosed all material changes since June 30, 2011 to the auditors concerning the call tracking system that must be disclosed in accordance with Section 64.1320(f) of FCC's Rules and Regulations. The material changes do not affect Verizon's compliance with Section 64.1310(a)(1).

Verizon Local Exchange Carrier operations² ("LEC Operations") consist of local exchange and intraLATA toll services provided by Verizon's LECs. Verizon Business operations consist of interLATA and intraLATA toll services provided by Verizon Business long-distance ("LD") carriers. Verizon Business uses the National Payphone Clearinghouse ("NPC") to perform payphone compensation settlements. Certain assertions included in this report depend in whole or in part upon NPC performance. In support of these assertions, Verizon Business relies upon a contractual agreement between Verizon Business and NPC ("NPC Contract"), which requires NPC compliance with CC Docket No. 96-128. In addition, NPC has provided Verizon Business an independent third-party audit report to verify that effective controls and procedures relating to these assertions have been established and will be maintained by NPC. Verizon Business has not conducted an independent evaluation and makes these assertions based solely on the NPC Contract and the third-party audit report of NPC's operations.

Verizon acts as the "Completing Carrier"³ for intraLATA coinless access code and subscriber toll-free payphone calls that originate and terminate within the LEC service area and for the following types of Verizon Business services:

1. Postpaid Calling Card calls
2. Prepaid Calling Card calls
3. Toll Free calls
4. Operator Services calls
5. Wholesale Switch-less Based Reseller calls
6. 1-800-USE-THE-VZ calls

The assertions are made starting with the initial point in call record processing at which Verizon has visibility to the call tracking data.

¹ "Verizon" refers to Verizon's Local Exchange Carriers ("LECs") and Verizon Business Services ("Verizon Business"), wholly-owned subsidiaries of Verizon Communications Inc.

² Verizon's LECs consist of the following companies: Verizon New York Inc., Verizon New England Inc., Verizon Washington, DC Inc., Verizon Maryland Inc., Verizon Virginia Inc., Verizon New Jersey Inc., Verizon Pennsylvania Inc., Verizon Delaware LLC., Verizon California Inc., Verizon Florida LLC., Verizon North Inc., Verizon South Inc. and GTE Southwest Incorporated d/b/a/ Verizon Southwest.

³ As defined in 47 C.F.R. Section 64.1300(a), a Completing Carrier is a long distance carrier or switch-based long distance reseller that completes a coinless access code or subscriber toll-free payphone call or a LEC that completes a local, coinless access code or subscriber toll-free payphone call.

**Report of Management on Compliance with Applicable Requirements
of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

Verizon represents the following facts regarding its role as the Completing Carrier, which are in fulfillment of the obligations of Verizon as described at 47 C.F.R. Section 64.1320(c):

A. Verizon's procedures accurately track calls to completion, as follows:

1. Verizon uses the appropriate FCC default "per-call rate" to compensate Payphone Service Providers ("PSPs"), and the third-party audit report of NPC processes verified that NPC compensates payphone providers based on this rate.
2. Verizon's definition of a "Compensable Call" (payphone-originated call that completes over the Company's network in which Verizon identifies itself as the Completing Carrier) is in compliance with FCC Rules and Regulations.
3. Verizon's definition of a "Completed Call" (call that is answered by the called party) is in compliance with FCC Rules and Regulations.
4. Verizon's systems are able to generate the following reports on a quarterly basis:
 - a. A list of the toll-free and access code numbers dialed and completed from each PSP's payphones along with the Automated Number Identification ("ANI") for each payphone.
 - b. The volume of calls for each toll-free and access code number completed by Verizon.
 - c. The name(s), address(es), and phone number(s) of the person(s) responsible for handling Verizon's payphone compensation.

The third-party audit report of NPC processes verified that NPC systems are able to generate the aforementioned reports.

5. Verizon stores for twenty-seven (27) months all of the data as required by FCC Rules and Regulations. The data contains the time and date of every call identified in its quarterly reports to PSPs, and the third-party audit report of NPC verified that NPC also stores this data for 27 months.
 6. Verizon's procedures for identifying PSPs are complete and accurate, and the third-party audit report of NPC verified that NPC procedures for identifying PSPs are also complete and accurate.
 7. Verizon's procedures for validating payphone ANIs are complete and accurate, and the third-party audit report of NPC verified that NPC procedures for validating payphone ANIs are also complete and accurate.
- B. Verizon has identified a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone-completed calls, as follows:
1. Verizon has identified personnel responsible for drafting and maintaining the business requirements associated with tracking, compensating, and resolving disputes concerning payphone-compensated calls.
 2. Verizon has identified personnel responsible for the development and maintenance of systems used in the collection and reporting of payphone call data, and the third-party audit report of NPC verified that NPC has designated personnel responsible for the development and maintenance of the systems under their control used in the collection and reporting of payphone call data.
 3. Verizon has identified personnel responsible for the implementation and maintenance of procedures that are utilized in creating final payphone compensation data sets, and the third-party

**Report of Management on Compliance with Applicable Requirements
of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

audit report of NPC verified that NPC has designated personnel responsible for the implementation and maintenance of procedures under their control that are utilized in creating final compensation data sets.

4. Verizon has identified personnel who are responsible for developing payphone compensation tracking reports, and the third-party audit report of NPC verified that NPC has designated personnel who are responsible for developing payphone compensation tracking reports under their control.
 5. Verizon has identified personnel who are responsible for payphone compensation dispute resolution, and the third-party audit report of NPC verified that NPC has designated personnel who are responsible for the payphone compensation dispute resolution under their control.
 6. Verizon has identified personnel responsible for managing coordination with the payphone clearinghouse services provider, NPC.
- C. Verizon has effective data monitoring procedures, as follows:
1. Verizon has the ability to prepare quarterly reports on payphone call counts, PSP identifiers, and numbers dialed for completed payphone originating calls, and the third-party audit report of NPC verified that NPC has the ability to prepare the quarterly reports on payphone call counts, PSP identifiers, and numbers dialed and completed under their control.
 2. Verizon performs data monitoring procedures on the volume of call records entering the payphone compensation systems.
 3. Verizon performs fraud-monitoring procedures to identify potentially illegitimate payphone calls.
 4. Verizon has the ability to investigate and resolve PSP disputes.
- D. Verizon adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability, as follows:
1. Verizon has security controls in place to control access to and monitor call-tracking data, and the third-party audit report of NPC verified that NPC also has security controls in place to control access to and monitor call-tracking data.
 2. Verizon has security controls in place to control access to and monitor the payment disbursement system, and the third-party audit report of NPC verified that NPC also has security controls in place to control access to and monitor the payment disbursement system.
 3. Verizon has a department that is responsible for making software changes that affect payphone compensation, and the third-party audit report of NPC verified that NPC also has a department that is responsible for making software changes that affect payphone compensation.
 4. Verizon has established protocols to implement and test software changes affecting payphone compensation, and the third-party audit report of NPC verified that NPC also has established protocols to implement and test software changes affecting payphone compensation.
 5. Verizon has application controls in place to ensure that network changes, external to payphone compensation, do not negatively impact payphone compensation.
- E. Verizon creates a compensable payphone call file by matching call detail records against payphone identifiers, as follows:

**Report of Management on Compliance with Applicable Requirements
of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

1. Verizon utilizes switch data and database look-ups to populate the date, originating ANI, and dialed number (where captured by the compensation system), and to aggregate data into a Compensable Call File.
 2. A compensable call for Verizon is a coinless access code or subscriber toll-free call originating at a payphone and completed from a switch that Verizon owns or leases or to an end user by Verizon.
 3. Verizon uses payphone-specific identifiers (coin indicator, info digits or ANI lists) to identify a compensable payphone call, and the third-party audit report of NPC verified that NPC also uses payphone-specific identifiers (info digits or ANI lists) to identify a compensable payphone call.
 4. Verizon applies validation and control procedures to compile the Compensable Call File.
- F. Verizon has procedures to incorporate call data into required reports, as follows:
1. Verizon's systems are able to generate, and the third-party audit report of NPC verified that NPC's systems are able to generate for the systems under their control, the following reports on a quarterly basis:
 - a. A list of the toll-free and access code numbers dialed (where captured by the compensation system) and completed from each PSP's payphones along with the ANI for each payphone.
 - b. The volume of payphone originating calls, for each toll-free and access code number, completed by Verizon.
 - c. The name(s), address(es), and phone number(s) of the person(s) responsible for handling Verizon's payphone compensation.
 - d. The Carrier Identification Code ("CIC") of all facilities-based LD carriers that routed calls to Verizon, categorized according to toll-free and access code numbers.
 2. Verizon possesses valid lists of payphone owners identified by ANI, and the third-party audit report of NPC verified that NPC possesses a valid list of payphone owners identified by ANI.
- G. Verizon has implemented procedures and controls needed to resolve payphone compensation disputes, as follows:
1. Verizon maintains required payphone call-tracking data for twenty-seven (27) months as required by FCC Rules and Regulations.
 2. Verizon has the ability to investigate and resolve PSP disputes.
 3. Verizon has designated personnel who are responsible for payphone compensation dispute resolution.
 4. Verizon has filed a statement that includes the name(s), address(es), and phone number(s) for person(s) responsible for handling payments and resolving disputes. This statement is updated within 60 days of any changes to such persons. The statement was filed with the FCC Secretary and made available to facilities-based LD carriers and PSPs.
- H. Verizon has contracted an independent third-party auditor to test critical controls and procedures to verify that errors are immaterial, as follows:
1. Verizon has procedures to identify payphone-originated calls, and the third-party audit report of NPC verified that NPC also has procedures to identify payphone-originated calls.

**Report of Management on Compliance with Applicable Requirements
of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

2. Verizon has procedures to capture dial-around calls originating from a payphone.
 3. Verizon has procedures to exclude incomplete calls originating from a payphone from the Compensable Call File.
 4. Verizon has procedures to accurately populate call record data in the Compensable Call File.
 5. Verizon has procedures to exclude separately commissioned calls from the Compensable Call File.
- I. Verizon has in place adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls originated from payphones; (ii) identify compensable payphone calls; (iii) identify incomplete or otherwise non-compensable calls; and (iv) determine the identities of the PSPs to which Verizon owes compensation, as follows:
1. Verizon has business rules that identify calls originated from payphones.
 2. Verizon has business rules that identify compensable payphone calls.
 3. Verizon has business rules that exclude incomplete or otherwise non-compensable calls originating from a payphone.
 4. Verizon has business rules to determine the identities of the PSPs to which Verizon owes compensation.

Required Disclosures per 47 C.F.R. Section 64.1320(d)

Verizon represents the following facts regarding its LEC operations in its role as the Completing Carrier. These facts are in fulfillment of the obligations of Verizon as specified at 47 C.F.R. Section 64.1320(d):

1. Verizon's criterion for identifying calls originating from payphones is a payphone line identifier ("coin indicator") populated in the call record.
2. Verizon's criteria for identifying compensable payphone calls include all calls with the coin-indicator populated and call duration greater than zero (0). Calls originating from payphones where a Verizon LEC has a written compensation agreement with the payphone owner are excluded from the Compensable Call File.
3. Verizon's criteria for identifying incomplete or otherwise non-compensable calls include: (i) calls that do not have the coin-indicator populated; (ii) calls with a duration of zero (0); or (iii) calls that originate from payphones where Verizon has a written compensation agreement with the payphone owner.
4. Verizon's criteria used to determine the identities of the PSPs to which Verizon owes compensation are established during the Sales Order Process. During the Sales Order Process, all orders relating to payphones require information consisting of PSP name, address, ANI and ANI location, to determine the identities of the PSPs.
5. The type of information that Verizon LECs need from the PSPs in order to compensate the PSPs is the correct identification information, consisting of PSP name, address, ANI and ANI location.

Verizon represents the following facts regarding Verizon Business' role as the Completing Carrier. These facts are in fulfillment of the obligations of Verizon Business as specified at 47 C.F.R. Section 64.1320(d):

**Report of Management on Compliance with Applicable Requirements
of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

1. Verizon Business' criteria for identifying calls originating from payphones include call record info-digit identification of 07, 27, 29 or 70. In addition, originating ANI is also used to identify payphone-originated calls.
2. Verizon Business' criteria for identifying compensable payphone calls include all calls with info-digits 07, 27, 29 or 70 (or with a payphone-identified originating ANI) and call duration greater than zero (0). Calls originating from payphones with a separate compensation agreement in place are excluded from the Compensable Call File.
3. Verizon Business' criteria for identifying incomplete or otherwise non-compensable calls include: (i) calls that do not have info-digits 07, 27, 29 or 70 (or that are not from a payphone-identified originating ANI); (ii) calls with a duration of zero (0); or (iii) calls that originate from payphones with a separate compensation agreement in place.
4. Verizon Business' criteria used to determine the identities of the PSPs to which Verizon Business owes compensation are established by NPC.
5. Verizon Business uses NPC to perform payphone compensation settlements.
6. The type of information that Verizon Business needs from the PSPs in order to compensate the PSPs is the correct identification information consisting of PSP name, address, ANI and ANI location.



(Signature and Date)

Jeffrey S. Noto

*Vice President and Chief Financial
Officer, Verizon Consumer and Mass
Markets*

Verizon Communications Inc.



(Signature and Date)

Steven R. Smith

*Vice President and Chief Financial
Officer, Verizon Enterprise Solutions*

Verizon Communications Inc.