



MOVING
FORWARD

2014
ANNUAL
REPORT



T O G G E T



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MISSION

USAC collects and distributes funds, works to protect the integrity of the universal service programs, promotes compliance among program participants, and provides information about universal service to Congress, the FCC, program stakeholders, and the general public.

HER

In 2014 USAC continued on the journey towards helping connect Americans to each other and the world through broadband and Internet access. By keeping a sharp focus on the needs of program participants and through collaboration with stakeholders, USAC implemented program and policy changes in efficient and streamlined ways.

HIGH COST PROGRAM

The High Cost Program provides support to eligible telecommunications carriers that, in turn, offer rates and services to consumers in rural areas that are reasonably comparable to those available in urban areas.

LIFELINE PROGRAM

The Lifeline Program provides support to eligible telecommunications carriers that, in turn, pass that support through to eligible consumers through discounts on telecommunications services.

RURAL HEALTH CARE PROGRAM

The Rural Health Care Program provides support to eligible health care providers for reduced rates on telecommunications services and broadband access.

SCHOOLS AND LIBRARIES PROGRAM

The Schools and Libraries Program, commonly known as the E-rate Program, provides support to eligible schools and libraries for reduced rates on telecommunications, telecommunications services, Internet access, and eligible equipment, along with repair and upkeep of eligible equipment.

CHAIRMAN & CEO LETTER



A handwritten signature in black ink that reads "B. L. Talbott".

Dr. Brian L. Talbott

CHAIRMAN OF
THE BOARD



A handwritten signature in black ink that reads "Chris Henderson".

Chris Henderson

CHIEF EXECUTIVE
OFFICER

We invite you to open up this annual report and explore the many ways in 2014 that USAC continued to move forward, together with the Federal Communications Commission (FCC) and program stakeholders, towards a more connected country.

In 2014, the FCC continued to pursue an aggressive modernization agenda for the universal service programs. In the E-rate Modernization Order, the Healthcare Connect Fund Order, and in the creation of the Connect America Fund, the FCC has laid out the next steps towards increased broadband connectivity. These changes have created a dynamic and exciting environment for our organization as we work to support the stated objectives of universal service through our delivery of the programs.

In 2014, the organization built upon the solid foundations set in place in 2013. USAC designed key initiatives to clarify service level agreements, enhance program integrity, and improve IT systems, making them more user-friendly and intuitive for program participants. Program teams sought to improve operations in ways that translated into more dollars out the door more quickly.

Highlights of significant accomplishments include:

- The High Cost Program completed enhancements (based on carrier feedback) to the online FCC Form 481, the annual compliance filing for carriers, in early April—well before the July 1st deadline.

- The Lifeline Program worked to make the transition for carriers using the National Lifeline Accountability Database (NLAD) as smooth as possible, establishing bi-weekly industry webinars and an e-newsletter to communicate timely information.
- The Rural Health Care Program brought all application processing functions in-house to make effective use of resources, and completed that transition by the target date of July 1.
- One of the goals of the E-rate Program in 2014 was to deliver quality decisions in record time. The program team was able to do just that, issuing decisions for nearly 95 percent of Funding Year (FY) 2014 Priority One applications and delivering commitments for nearly \$2 billion by October 1.
- USAC deployed the new online FCC Form 499-A, with a focus on making the end user's experience simple, intuitive, and predictable.

While we made good progress in 2014, we are increasing the rate of planning and investment to meet the demands of the evolving universal service policy environment and the needs of our multiple stakeholders during this time of change. Specifically, we are looking to move all applications and processes online to increase efficiency, continuity, and ease of use, most notably with the introduction of the online FCC Form 471 for the E-rate Program in FY2015. We are also improving our ability to provide high-value data to the public so as to foster better program understanding.

STATEMENT FROM THE CHAIRMAN

On behalf of the USAC Board of Directors, I want to issue a warm welcome to USAC's new Chief Executive Officer, Chris Henderson. Chris started in September and has already made a significant, positive impact on every area of the organization. Chris brings to USAC over twenty years of experience and leadership in both the private and public sectors. His unique combination of proven leadership, experiences, and history of delivering successful outcomes in complex environments makes him an excellent fit to lead USAC. We're delighted to welcome Chris as USAC's new CEO and a member of the USAC Board of Directors and we look forward to working with him in the months and years ahead.

We are creating impactful, internally-developed data analytics in an effort to empower participants and inform policy-makers. Finally, we are working to ensure that our audit and compliance efforts are as cost-effective as possible, and that we effectively translate our findings into better communications to improve success rates across the programs.

USAC is grateful for the opportunity to serve this valuable mission every day. We intend to meet the challenges and make the most of the opportunities provided by the changing environment through stakeholder-driven innovation and other business process improvements in 2015 and beyond. The ultimate measure of our success will be the success of our stakeholders and the advancement of the FCC's goals for the universal service programs.

Fund Administration

USAC operations and financial systems focused on syncing with applications systems more fully in 2014. These efforts enabled USAC to improve audit processes, increase efficiency, and more effectively communicate with stakeholders.

In 2014, USAC focused on making updates and improvements to its online filing system, E-File. With a focus on making the end user's experience simple, intuitive, and predictable, USAC deployed the new online FCC Form 499-A in late June. The new forms contain many built-in auto-verification features, along with tips and guidance throughout, designed to

enhance the user's experience. The redesigned system not only benefits filers, but it also decreases the amount of time USAC spends on processing forms.

In January 2014, USAC launched the first issue of the 498/499 Spotlight. This is a quarterly publication designed for filers of the FCC Forms 499 and 498,

USAC ADMINISTRATIVE EXPENSES (UNAUDITED)

YEAR	EXPENSE RATE ²	USAC ADMINISTRATIVE EXPENSES	FCC OIG USF AUDIT PROGRAM COSTS ³	TOTAL ADMINISTRATIVE EXPENSES
2010	1.33%	\$ 102,089,000	\$ 3,337,000	\$ 105,426,000
2011	1.32%	\$ 106,542,000	\$ 205,000	\$ 106,747,000
2012	1.27%	\$ 110,880,000	\$ 0	\$ 110,880,000
2013	1.28%	\$ 106,869,000	\$ 0	\$ 106,869,000
2014 ¹	1.52%	\$ 118,921,000	\$ 0	\$ 118,921,000

¹ USAC administrative expenses based on unaudited financial statement data in this annual report for 2014.

² Percentage shows USAC administrative expenses divided by total authorized support.

³ FCC OIG USF audit expenses as reported in Board of Directors meetings. Does not include costs of audits done by USAC staff.



With a focus on making the end user's experience simple, intuitive, and predictable, USAC deployed the new online FCC Form 499-A in late June.

providing deadline reminders, news about forms, tips, helpful guidance, and clarification on important issues, such as the Red Light Rule and the auditing process. Subscription numbers have increased steadily throughout the year, and USAC delivered the October 2014 issue to approximately 10,800 subscribers. This publication will continue in 2015.

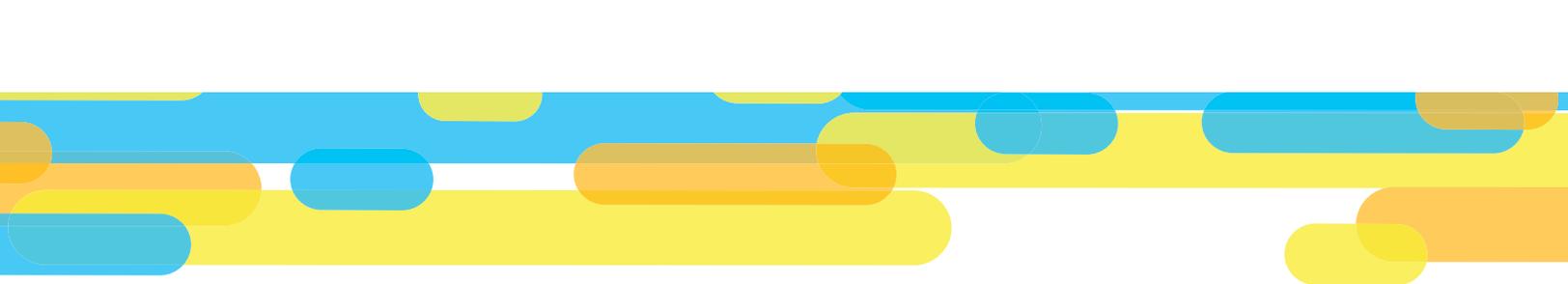
USAC's Internal Audit Division finalized 74 audits under the Beneficiary and Contributor Audit Program (BCAP) 2013-2014 plan, examining over \$136 million in universal service funding paid to program participants. The Payment Quality Assurance (PQA) Program reviewed over 1,800 payments, and results showed that universal service programs continue to have low improper payment rates.

USAC performed an analysis of prior audit findings and used this data and other information to assist

with this development of targeted outreach materials specific to helping universal service stakeholders regarding the BCAP and PQA programs.

In an effort to keep all universal service stakeholders informed, USAC continues its commitment to deliver quality, timely communications and educational opportunities both in-person and online. USAC connected with over 455,000 people in 2014, conducting 12 live training events with over 2,100 attendees, holding 70 webinars that drew more than 18,000 participants, sending out 330 communications through email, and participating in relevant events with our program stakeholders.

Lastly, as part of a continuous "Go Green" effort, USAC reduced over 80 percent of on-site storage needs for paper financial records by transferring them to a secure database.



High Cost Program

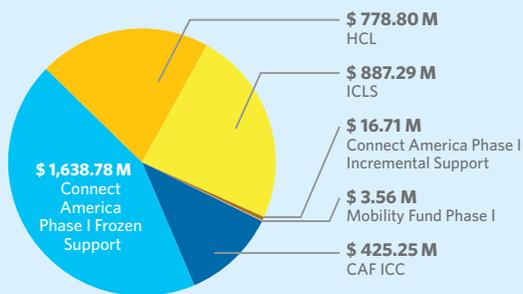


In 2014, USAC implemented important tools to support the Connect America Fund transition from supporting only voice networks to preserving voice and expanding broadband availability.

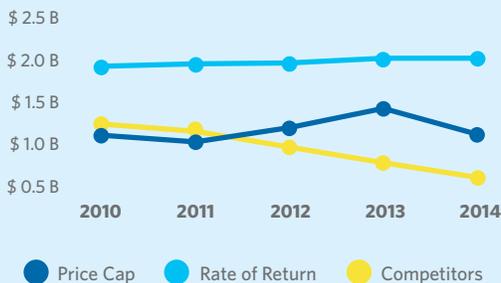
In 2014, the High Cost Program focused on continued implementation of the FCC's 2011 USF/ICC Transformation Order, which sets the framework for the transition of universal service from supporting only voice networks to preserving voice and expanding broadband availability. Designed to transition the focus of universal service from supporting voice networks to supporting and expanding broadband availability, the Connect America Fund initiatives are on track.

Critical to a successful continued implementation of the Mobility Fund is the FCC Form 690 online filing system, which launched in 2014. While the FCC deadline for the launch of this form was July 1, USAC was able to launch the form early, on April 4. USAC provided an online filing guide specific to the FCC Form 690 that walked carriers through the entire process. This online system makes it simpler and faster for carriers to file their information, and provides filers with benefits only available online, such as data validation and real-time submission confirmation.

2014 AUTHORIZED SUPPORT*



AUTHORIZED SUPPORT* BY CARRIER TYPE



Note: In 2013, Price Cap Support increased due to Connect America Phase I Incremental Support.

*Authorized Support is approved funding for disbursement for January through December 2014—it does not include recoveries from audits, appeals, or other enforcement actions.

Along these same lines and critical to the success of the Connect America Fund, the High Cost Program was able to complete the enhancements to the online FCC Form 481, the annual compliance filing for all carriers receiving High Cost Program support, before the July 1 deadline. USAC released the improvements in early April. USAC implemented these enhancements, which make the form easier to use, based on carrier feedback.

In 2014, USAC expanded this option for online filing of High Cost Program certifications to include states. Historically, only carriers were able to file online. But in the spring of 2014, USAC made the online system available for state commissions and carriers that self-certify to file their Section 54.314 annual certifications.

Providing information to High Cost Program carriers continues to be a primary focus. USAC held three webinars, with over 400 people in attendance, on how to use online forms. As a result, online filing rates averaged 67 percent—the highest online filing rates for these forms so far.

Lifeline Program



In 2014, the Lifeline Program assisted carriers in transitioning to using the National Lifeline Accountability Database (NLAD) to verify subscribers are not already receiving Lifeline Program benefits from another carrier.

In 2014, USAC's Lifeline Program focused on making the transition to using the National Lifeline Accountability Database (NLAD) as smooth as possible for subscribers and carriers. To prevent waste, fraud, and abuse, two years ago USAC created NLAD to help detect and prevent duplicative support in the Lifeline Program. This database helps carriers keep track of their consumers who receive Lifeline Program-supported service. In the first quarter of 2014, approximately 10.61 million Lifeline Program consumers in 51 states and territories migrated into NLAD, which accounts for all states except for the opt-out states (California, Oregon, Texas, Vermont, and Puerto Rico).

USAC also established the NLAD call center to accept calls from carriers in need of assistance and to resolve subscriber-related issues for carriers. Additionally, in 2014, the Lifeline Program completed the duplicate scrubbing process for Track 1 duplicates (one Lifeline Program benefit per subscriber) and Track 2 duplicates (one Lifeline Program benefit per household).

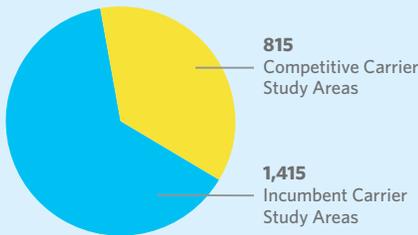
Because establishing NLAD was such a significant and complex initiative for all carriers, USAC provided carriers with timely and useful assistance to help them incorporate NLAD into their business processes. Throughout 2014, USAC provided carriers with specific, focused NLAD guidance. The Lifeline Program created a publication, the NLAD Bulletin, to send to carriers when an NLAD-related

AUTHORIZED SUPPORT* BY CALENDAR YEAR



*Authorized Support is approved funding for disbursement for January through December 2014—it does not include recoveries from audits, appeals, or other enforcement actions.

STUDY AREAS RECEIVING SUPPORT IN 2014



SUBSCRIBERS SUPPORTED



Note: Reflects the total number of Lifeline Program subscribers at the end of each quarter.

milestone was looming or when a database enhancement was implemented. In response to the industry's requests, USAC held weekly (and then bi-weekly) webinars so carriers had an established forum in which they could learn about NLAD updates and pose questions to USAC staff. USAC, in turn, was able to make changes and enhancements to the database, based on input from industry partners.

Meanwhile, other aspects of Lifeline Program operations continued. In late 2014, USAC launched the new online FCC Form 555, the Annual Lifeline Eligible Telecommunications Carrier Certification Form, which all eligible telecommunications carriers participating in the Lifeline Program must submit each January. USAC also held a webinar for carriers on navigating the new online form, providing tips for filing successfully. As a result, in Program Year 2014, approximately 60 percent of designated eligible telecommunications carriers successfully filed the FCC Form 555 online, up from 46 percent in Program Year 2013.

The Lifeline Program is also committed to keeping its carrier stakeholders knowledgeable about all upcoming program-related information by providing a quarterly publication that reaches more than 5,800 subscribers.

Rural Health Care Program



With the transition to in-house operations of the Telecommunications Program, all Rural Health Care Programs are now run in-house at USAC.

The Rural Health Care Program made significant operational changes in 2014 that resulted in successful outcomes for the beneficiaries of its programs: the Telecommunications and Internet Access Program, the Pilot Program, and the Healthcare Connect Fund (HCF) Program. The Rural Health Care Program brought Telecommunications Program operations in-house in 2014. All Rural Health Care Programs are now run in-house at USAC, which places knowledgeable program staff as the first point of contact for program stakeholders.

HCF Program operations and procedures continue to roll out, building review systems for the processing of HCF Program forms and hiring new staff to handle the increased workload. In 2014, the Rural Health Care Program implemented a program-wide Help Desk to direct callers to appropriate program staff with the goal of increasing response times for program inquiries and to gather feedback on program operations. The Help Desk has become increasingly user-friendly for both applicants and service providers.

The Rural Health Care Program has seen a 50 percent increase in committed dollars, from \$117.91 million in Funding Year (FY) 2012 to \$177.94 million in FY2013, and the number keeps growing. Across the board for the Rural Health Care Program, USAC received \$192.95 million in commitment requests for FY2013 and, through the end of 2014, \$100.84 million for FY2014. For the Telecommunications Program, staff sought to reduce the number of outstanding, uncommitted funding requests.

AUTHORIZED SUPPORT* BY CALENDAR YEAR



*Authorized Support is approved funding for disbursement for January through December 2014—it does not include recoveries from audits, appeals, or other enforcement actions.

HEALTH CARE PROVIDERS RECEIVING SUPPORT IN 2014



Note: Represents the total number of unique applicants with authorized support during calendar year 2014.

SERVICE PROVIDERS PARTICIPATING IN 2014



- Telecommunications, Telecom/Internet Access Programs
- Healthcare Connect Fund Program
- Pilot Program

For FY2012, the Telecommunications Program received 11,815 total funding requests. At the end of 2013, 1,636 (14 percent) remained in the processing queue. For FY2013, USAC received 11,527 funding requests and staff were able to reduce the processing queue to 100 (less than 1 percent) by the end of 2014. Rural Health Care Program staff reduced total outstanding funding requests (including both FY2013 and FY2014 forms) to 16 percent of annual funding requests submitted—a record low—and a reduction from the more than 35 percent of annual funding requests outstanding at the beginning of the calendar year.

For the HCF Program, staff continued to approve site eligibility, post requests for services, commit funding, and pay invoices. For FY2013, USAC made over \$49 million in HCF Program commitments in 2014, with \$6.98 million going to individual HCP applicants and \$32.9 million going to consortia applicants. For FY2014, USAC made over \$20 million in HCF Program commitments in 2014, with over \$3 million going to individual HCP applicants and \$17.5 million going to consortia applicants. USAC disbursed over \$9.9 million to HCF Program service providers and vendors in 2014.

From an outreach perspective, in 2014 Rural Health Care Program staff created outreach plans customized to suit stakeholders' needs. Separate quarterly webinars were held for the individual HCP applicants, for the HCPs applying as consortia, for the Pilot Program projects, and for the HCPs participating in the Telecommunications Program. During 2014, USAC communicated with over 108,000 stakeholders through email and the program's newsletter—the quarterly RHC Circuit.

Schools and Libraries Program

 In FY2014, USAC issued funding commitments faster than any previous funding year. Funding decisions for nearly 95 percent of FY2014 Priority One applications, with commitments totaling nearly \$2 billion, were issued by October 1.

One of the goals for the Schools and Libraries (E-rate) Program in 2014 was to deliver quality decisions, more quickly, to applicants and service providers. The program is pleased that it was able to meet this goal. Demand for E-rate Program support remained strong for Funding Year (FY) 2014. USAC focused on delivering timely decisions to applicants and providing effective customer service throughout the decision-making process.

In FY2014, USAC issued funding commitments faster than any previous funding year. Funding decisions for nearly 95 percent of FY2014 Priority One applications, with commitments totaling nearly \$2 billion, were issued by October 1. USAC paid nearly 98 percent of invoices within 30 days of receipt and issued decisions on a majority of appeals within 60 days of receipt. USAC also handled a large volume of phone inquiries, answering over 50,000 calls in 2014, and did so efficiently—with 96 percent of questions resolved on the first call.

In 2014, USAC received more than 48,000 applications, seeking nearly \$5 billion in E-rate Program funds. Over 96,000 schools/school districts and nearly 12,000 libraries applied. The demand for support for telecommunications, telecommunications services, and Internet access (Priority One services) totaled \$2.7 billion, a 2.9 percent decrease from the previous year. The demand for support for internal network connections and maintenance of internal network connections (Priority Two services) at schools and libraries was \$2.21 billion, a 3 percent decrease from the previous year.

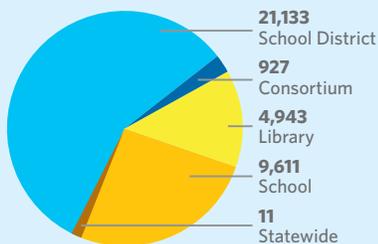
E-rate Program outreach and training for 2014 included two spring trainings for 376 service providers and eight fall applicant trainings spread across the country, reaching over 1,700 applicants. Additionally, 2014 saw the launch of the E-rate Program's webinar training series, which debuted in

AUTHORIZED SUPPORT* BY CALENDAR YEAR

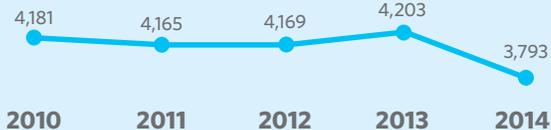


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APPLICATIONS FUNDED, FUNDING YEAR 2014



SERVICE PROVIDERS PARTICIPATING BY CALENDAR YEAR



November and will continue into 2015, reaching thousands of E-Rate Program participants. The SL News Brief, issued weekly, keeps program participants informed about program requirements, upcoming trainings and webinars, as well as E-rate Modernization Order updates.

The Helping Applicants to Succeed (HATS) team completed 707 HATS-type visits in 2014 via telephone and videoconference. In 2014, the HATS team initiated outreach with applicants in 50 states, Puerto Rico, and Saipan. The team provided help in a variety of subject matter areas so applicants would be successful during the application process. USAC sent a total of 21,651 emails in a series of 12 blast email campaigns. Each email included entity-specific program guidance to help applicants meet form deadlines. Additionally, the team developed 18 video tutorials to provide in-the-moment assistance during the application process. These videos are available on the USAC website to inform applicants of current program guidance.

In 2014, the FCC issued two E-rate Modernization Orders, one in July and the other in December. The first Order “took major steps to expand access to cutting-edge digital learning technologies by modernizing the E-rate Program to widely support robust Wi-Fi networks in schools and libraries” (FCC News Release, July 11, 2014). The subsequent Order built upon the first, “making more funding available for libraries and schools to purchase broadband connectivity capable of delivering gigabit service over the next five years” (FCC News Release, December 11, 2014).

As these Orders bring about major changes to the program as it exists today, the E-rate Program staff have been providing outreach to applicants and service providers regarding what the Orders mean to them and when the changes will take place.



MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSION AND STRUCTURE

The Universal Service Administrative Company (USAC) is a not-for-profit corporation that was formed in 1997 to administer the federal universal service support programs and the universal service fund in accordance with Federal Communications Commission (FCC) rules.

USAC collects and distributes funds, works to protect the integrity of the universal service programs—High Cost, Lifeline, Rural Health Care, and Schools and Libraries—promotes compliance among program participants, and provides information about universal service to Congress, the FCC, program audiences, and the general public.

In all these tasks, USAC strives to provide efficient, responsible stewardship of the programs, a key national asset in making important telecommunications and Internet services available to consumers, health care providers, schools, and libraries throughout the United States.

FCC regulations governing USAC are found in Part 54 of Title 47 of the Code of Federal Regulations (47 CFR Part 54). These regulations required USAC to establish three program divisions: High Cost and Lifeline, Rural Health Care, and Schools and Libraries. The program divisions are supported by additional USAC personnel in External Relations, Finance, General Counsel, Human Resources and Operations, Information Systems, and Internal Audit. Consistent with FCC rules, USAC does not make policy or interpret unclear provisions of statutes or the FCC's rules.

PERFORMANCE MEASURES

USAC is required to report quarterly to the FCC on performance measures pursuant to a Memorandum of Understanding signed in September 2008. This information pertains to USAC's administration of the programs and the universal service fund.

FUND ADMINISTRATION	1st QTR	2nd QTR	3rd QTR	4th QTR
USF CONTRIBUTOR STATISTICS				
Number of USF contributors	3,144	3,147	3,164	3,149
Total contributions to the USF (in thousands)	\$ 2,262,968	\$ 2,249,662	\$ 2,157,273	\$ 2,148,718
Total delinquencies or past due payments (in thousands)	\$ 253,663	\$ 238,375	\$ 241,044	\$ 241,425
AVERAGE TIME TO PROCESS PAYMENTS (IN DAYS)				
High Cost Program	2	3	8	9
Lifeline Program	29	29	29	29
Rural Health Care Program (Funding Year 2013)	6	7	7	8
Schools and Libraries Program (Funding Year 2013)	5	5	5	7
USAC COMPLAINT STATISTICS				
Complaints about USAC	18	40	48	23
Average number of business days to resolve complaints	0.9	1.1	1.7	1.1

HIGH COST PROGRAM	1st QTR	2nd QTR	3rd QTR	4th QTR
Total amount disbursed (in thousands)	\$ 943,652	\$ 917,772	\$ 944,853	\$ 923,363

LIFELINE PROGRAM	1st QTR	2nd QTR	3rd QTR	4th QTR
Total amount disbursed (in thousands)	\$ 410,877	\$ 380,894	\$ 399,103	\$ 436,220
Number of program beneficiaries (ETCs)	2,136	2,144	2,141	2,172

RURAL HEALTH CARE PROGRAM*	1st QTR	2nd QTR	3rd QTR	4th QTR
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APPLICATION TYPES

(all numbers cumulative for funding year)

Funding Year 2014

Telecom	15	218	1,284	2,536
Internet	3	5	5	5

Funding Year 2013

Telecom	3,886	7,416	7,403	7,418
Internet	2,469	4,106	4,108	4,109

APPLICATION OUTCOMES

(all numbers cumulative for funding year)

Funding Year 2014

Submitted	18	223	1,289	2,541
Granted	n/a	n/a	52	219
Rejected	5	7	13	22

Funding Year 2013

Submitted	6,355	11,522	11,511	11,527
Granted	2,206	6,468	8,625	10,948
Rejected	46	210	322	470

INVOICES FUNDING YEAR 2013

(all numbers cumulative for funding year)

Invoices received	174	657	1,488	2,157
Invoices paid	150	590	1,398	2,047
Invoices rejected	2	22	23	30

APPEALS

Current appeals (new appeals received in each quarter)	21	27	17	22
Average calendar days to resolve appeals	119	77	105	130

*Note — Does not include Healthcare Connect Fund Program or Pilot Program data.

SCHOOLS AND LIBRARIES PROGRAM	1st QTR	2nd QTR	3rd QTR	4th QTR
APPLICATION OUTCOMES				
(all numbers cumulative for funding year)				
Funding Year 2014				
Submitted	47,340	47,993	48,030	48,037
Granted	n/a	25,416	35,097	36,625
Rejected	n/a	91	8,346	8,686
Funding Year 2013				
Submitted	47,265	47,266	47,266	47,266
Granted	35,985	36,364	36,505	36,815
Rejected	8,106	8,205	8,206	8,218
INVOICES FUNDING YEAR 2013				
(all numbers cumulative for funding year)				
Invoices received	179,671	305,750	448,334	511,012
Invoices paid	163,554	270,234	408,462	464,747
Invoices rejected	9,540	14,396	20,625	30,483
APPEALS				
Current appeals (new appeals received in each quarter)	344	433	387	505
Average calendar days to resolve appeals	69	42	66	59

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

USAC has a formal internal controls structure and review process consistent with U.S. Office of Management and Budget (OMB) Circular A-123 guidance, titled "Management's Responsibility for Internal Control," including Appendix A (Implementation Plans). In 2014, USAC's internal controls group continued to enhance USAC's overall internal controls framework with a documentation and assessment program, including maintaining up-to-date policies and procedures. No material weaknesses were identified during the 2014 internal controls assessments. In addition to annual internal controls assessments, USAC contracts with an independent audit firm to perform an annual audit of its financial statements as well as agreed upon procedures in compliance with the requirements in 47 CFR Part 54. The FCC's auditors also audit the universal service fund as part of the annual FCC financial audit.

USAC's current financial management system is a widely used and commercially accepted accounting system. The 2014 audit of the FCC's financial statements identified a non-compliance with the Federal Managers Financial Integrity Act of 1982. The non-compliance noted was that the financial systems of the FCC's reporting components (e.g., USAC as the administrator of the universal service fund) do not achieve the federal financial system integration standards as determined by OMB. Although USAC's financial systems are not currently compliant with OMB standards, we have compensating controls in place to ensure all financial data is accurate and meets the requirements of the FCC.

FINANCIAL INFORMATION

The accompanying USAC unaudited financial statements and tables are the responsibility of USAC management and reflect all necessary adjustments and reclassifications that are necessary for fair presentation of the period presented. The results for the year ended December 31, 2014, are not considered final until the 2014 financial statement audit is completed by our independent auditors. These unaudited financial statements and tables should be used in conjunction with the audited financial statements and the notes thereto for the years ended December 31, 2013, and 2012, included herein.

The table on the right presents selected data about USAC's staffing and operations for 2014 and 2013.

ITEM	2014	2013
Number of employees	393	356
Personnel costs	\$ 47,639,000	\$ 41,620,000
Overall general and administrative expenses	\$ 30,807,000	\$ 23,207,000
Contract expenses	\$ 36,497,000	\$ 39,418,000

2014 USAC Contractors Receiving Payments Greater than \$1 Million

CONTRACTOR/VENDOR	TYPE OF GOODS/SERVICE	PROCUREMENT METHOD
Solix, Inc.	RHC-SL Operational Support Services	Competitive Bid
Cigna Healthcare	Employee Benefits	Competitive Bid
Information Management Consultants, Inc.	LI Information Technology Services (NLAD)	Competitive Bid
2000 L Owner LLC	Office Space Lease	Competitive Bid
Cotton & Company LLP	Payment Quality Assurance Support Services	Competitive Bid
Reed Elsevier Inc., dba/LexisNexis	Third Party Independent Verification Services	Competitive Bid
HireStrategy	Information Technology Temporary Staffing Services	Competitive Bid
DP George & Company, LLC	Financial Statement Audit and Agreed Upon Procedures Review	Competitive Bid
Equinix, Inc.	Information Technology Services	Competitive Bid
Clearpath Solutions Group LLC	Information Technology Hardware and Software Support	Competitive Bid
Bank of America	Banking and Investment Management Services	Competitive Bid

Dollar Range: ■ + \$5 million ■ \$2 million - \$5 million ■ \$1 million - \$2 million

Statement of Financial Position of USAC

As of December 31, 2014 | (Unaudited - in thousands)

		2014
ASSETS		
Current Assets		
Cash		\$ 4,151
Receivable from the Federal USF		8,873
Prepaid expenses and other current assets		3,102
Assets held for the Federal USF		2,877,532
Total Current Assets		2,893,658
Fixed Assets, net, held for Federal USF		7,965
Other Assets		581
Assets held for the Federal USF		5,595,973
TOTAL		\$ 8,498,177
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities		\$ 6,167
Advance from the Federal USF		13,024
Deferred revenue		1,392
Liabilities related to assets held for the Federal USF		2,877,532
Total Current Liabilities		2,898,115
Deferred rent		4,089
Liabilities related to assets held for the Federal USF		5,595,973
Commitments and contingencies		\$ 0
TOTAL		\$ 8,498,177
Net Assets		\$ 0

Statement of Operations and Change in Unrestricted Net Assets of USAC

For the Year Ended December 31, 2014 | (Unaudited - in thousands)

		2014
REVENUE		\$ 118,921
Operating Expenses		
Contractual expenses		36,497
Personnel and related expenses		47,639
General and administrative		30,807
Depreciation, amortization, and gain/loss on retirements		3,978
Total Operating Expenses		118,921
Change in Net Assets		0
Net Assets — Beginning of year		0
NET ASSETS — END OF YEAR		\$ 0

Statement of Cash Flows of USAC

For the Year Ended December 31, 2014 | (Unaudited - in thousands)

	2014
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from the Federal USF and other parties	\$ 117,533
Cash paid for operating expenses and employees	(114,000)
Net cash provided by operating activities	3,533
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures	(5,277)
(Decrease) in Cash	(1,744)
Cash, Beginning of year	5,895
Cash, End of year	\$ 4,151
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Change in net assets	\$ 0
<i>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</i>	
Depreciation and amortization	3,977
Loss on retirement/valuation adjustment of fixed assets	1
<i>Changes in operating assets and liabilities:</i>	
Increase in prepaid expense and other assets	(1,342)
(Increase) in assets held for the Federal USF	(778,688)
(Increase) in receivable from the Federal USF	(1,741)
Increase in accounts payable and accrued liabilities	2,186
Increase in deferred revenue	354
Increase in deferred rent	98
Increase in liabilities related to assets held for the Federal USF	778,688
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 3,533
Supplemental disclosure of non-cash information	
Capital expenditures included in accounts payable/accrued expenses	\$ 0

Combining Supplemental Schedules of Assets and Liabilities Applicable to the Federal USF

As of December 31, 2014 | (Unaudited - in thousands)

2014							
	SCHOOLS AND LIBRARIES	HIGH COST	HIGH COST BROADBAND	LIFELINE	RURAL HEALTH CARE	COMMON ASSETS	TOTAL USF
ASSETS							
Cash and cash equivalents	\$ (2,239,930)	\$ 218,610	\$ 1,948,415	\$ 105,450	\$ 403,164	\$ 0	\$ 435,709
Investments	7,272,042	0	0	0	0	0	7,272,042
Receivables	230,513	9,611	0	13,514	1,054	983,952	1,238,644
Allowance for doubtful accounts	(224,584)	(2,854)	0	(13,391)	(829)	(245,127)	(486,785)
Interest receivable	0	0	0	0	0	13,895	13,895
Assets held for the Federal USF	5,038,041	225,367	1,948,415	105,573	403,389	752,720	8,473,505
Receivable from USAC	3,569	6,983	0	2,290	182	0	13,024
TOTAL	\$ 5,041,610	\$ 232,350	\$ 1,948,415	\$ 107,863	\$ 403,571	\$ 752,720	\$ 8,486,529
LIABILITIES							
Payable to service providers	\$ (14,750)	\$ (1,991)	\$ 0	\$ (22,675)	\$ (364)	\$ 0	\$ (39,780)
Accrued liabilities	(10,823)	(323,245)	0	(145,598)	(887)	0	(480,553)
TOTAL	\$ (25,573)	\$ (325,236)	\$ 0	\$ (168,273)	\$ (1,251)	\$ 0	\$ (520,333)

Note — This schedule represents assets and liabilities of the Federal USF at December 31, 2014, for each of the support programs.

Combining Supplemental Schedules of Changes in Net Assets Applicable to the Federal USF

For the Year Ended December 31, 2014 | (Unaudited - in thousands)

2014					
	SCHOOLS AND LIBRARIES	HIGH COST	LIFELINE	RURAL HEALTH CARE	TOTAL USF
ADDITIONS					
Amounts billed to contributors	\$ 2,379,826	\$ 4,533,465	\$ 1,676,035	\$ 242,203	\$ 8,831,529
Non exchange revenue bad debt	(324)	(561)	(124)	(27)	(1,036)
Interest income	19,407	6,118	533	1,352	27,410
Total additions	2,398,909	4,539,022	1,676,444	243,528	8,857,903
DEDUCTIONS					
Amount paid and due to service providers	2,268,924	3,672,201	1,632,488	192,232	7,765,845
Bad debt expenses	7,430	(369)	904	274	8,239
Operating expenses	66,172	21,808	18,820	12,313	119,113
Unrealized/realized gain or loss	(472)	0	0	0	(472)
Total deductions	2,342,054	3,693,640	1,652,212	204,819	7,892,725
CHANGES IN NET ASSETS	\$ 56,855	\$ 845,382	\$ 24,232	\$ 38,709	\$ 965,178

Note — This schedule represents the changes in net assets applicable to the Federal USF at December 31, 2014, for each of the support programs.

Combining Supplemental Schedules of Cash Flows Applicable to the Federal USF

For the Year Ended December 31, 2014 | (Unaudited - in thousands)

	2014				
	SCHOOLS AND LIBRARIES	HIGH COST	LIFELINE	RURAL HEALTH CARE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from contributors	\$ 2,371,163	\$ 4,537,384	\$ 1,679,142	\$ 254,995	\$ 8,842,684
Interest paid	36,041	4,620	23	1,271	41,955
Cash paid to service providers	(2,287,004)	(3,808,137)	(1,670,490)	(193,189)	(7,958,820)
Cash paid for administrative costs	(66,172)	(21,807)	(18,819)	(12,313)	(119,111)
Net cash provided by (used in) operating activities	54,028	712,060	(10,144)	50,764	806,708
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investments	1,094,690	0	0	0	1,094,690
Purchase of investments	(2,165,301)	0	0	0	(2,165,301)
Net cash used in investing activities	(1,070,611)	0	0	0	(1,070,611)
INCREASE (DECREASE) IN CASH EQUIVALENTS	(1,016,583)	712,060	(10,144)	50,764	(263,903)
CASH AND CASH EQUIVALENTS					
Beginning of year	(1,223,347)	1,454,965	115,594	352,400	699,612
END OF YEAR	\$ (2,239,930)	\$ 2,167,025	\$ 105,450	\$ 403,164	\$ 435,709
RECONCILIATION OF CHANGES IN NET ASSETS PROVIDED BY (USED IN) CASH FROM OPERATING ACTIVITIES					
Change in net assets	\$ 56,855	\$ 845,382	\$ 24,232	\$ 38,709	\$ 965,178
<i>Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:</i>					
Bad debt	7,754	192	1,028	301	9,275
Amortized discount or premium	44,232	0	0	0	44,232
Unrealized/realized gain or loss	(472)	0	0	0	(472)
<i>Changes in operating assets and liabilities:</i>					
Decrease (increase) in interest receivable	(797)	(1,498)	(510)	(80)	(2,885)
Decrease (increase) in accounts receivable	(11,361)	(6,768)	(2,993)	(712)	(21,834)
Decrease (increase) in receivable from USAC	0	0	0	0	0
Increase (decrease) in liabilities	(42,183)	(125,248)	(31,901)	12,546	(186,786)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 54,028	\$ 712,060	\$ (10,144)	\$ 50,764	\$ 806,708

Note — This schedule represents the cash flows of the Federal USF for the year ended December 31, 2014, for each of the support programs.

INDEPENDENT AUDITOR'S REPORT

DP George & Company 

2121 Eisenhower Avenue, Suite 606
Alexandria, VA 22314
Telephone 703-229-4441

To the Board of Directors of Universal Service Administrative Company:

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Universal Service Administrative Company (the Company), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of operations and change in unrestricted net assets, and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The additional supplemental schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of the Company's management. Such schedules have not been subject to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on them.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2014 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters for the year ended December 31, 2013. The purpose of that 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 and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

DP George & Company, LLC

DP George & Company, LLC
Alexandria, VA
June 10, 2014

Statements of Financial Position

As of December 31, 2013 and 2012 | (in thousands)

	2013	2012
ASSETS		
Current Assets		
Cash	\$ 5,895	\$ 3,899
Receivable from the Federal USF	7,131	9,125
Prepaid expenses and other current assets	1,838	2,864
Assets held for the Federal USF (Note 3)	2,568,418	4,601,939
Total Current Assets	2,583,282	4,617,827
Fixed Assets, net, held for Federal USF (Note 4)	8,020	5,486
Other Assets	503	344
Assets held for the Federal USF (Note 3)	5,126,399	2,769,040
TOTAL	\$ 7,718,204	\$ 7,392,697
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 5,334	\$ 5,004
Advance from the Federal USF	13,024	13,024
Deferred revenue	1,038	524
Liabilities related to assets held for the Federal USF	2,568,418	4,601,939
Total Current Liabilities	2,587,814	4,620,491
Deferred Rent	3,991	3,166
Liabilities related to assets held for the Federal USF	5,126,399	2,769,040
Commitments and contingencies (Note 7)	0	0
TOTAL	\$ 7,718,204	\$ 7,392,697
Net Assets	\$ 0	\$ 0

Statements of Operations and Change in Unrestricted Net Assets

For the Years Ended December 31, 2013 and 2012 | (in thousands)

	2013	2012
REVENUE	\$ 106,869	\$ 110,880
Operating Expenses		
Contractual expenses	39,418	51,384
Personnel and related expense	41,620	35,820
General and administrative	23,207	19,081
Depreciation, amortization and gain/loss on retirements	2,623	4,595
Total Operating Expenses	106,869	110,880
Change in Net Assets	0	0
Net Assets — Beginning of Year	0	0
NET ASSETS — END OF YEAR	\$ 0	\$ 0

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

Statements of Cash Flows

For the Years Ended December 31, 2013 and 2012 | (in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from the Federal USF and other parties	\$ 109,377	\$ 108,567
Cash paid for operating expenses and employees	(103,442)	(105,239)
Net cash provided by (used in) operating activities	5,935	3,328
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(3,939)	(3,053)
Increase (Decrease) in Cash	1,996	275
Cash — Beginning of Year	3,899	3,624
CASH — END OF YEAR	\$ 5,895	\$ 3,899

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

Change in net assets	\$ 0	\$ 0
<i>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</i>		
Depreciation and amortization	2,619	4,587
(Gain) Loss on retirement of fixed assets	4	8
<i>Changes in operating assets and liabilities:</i>		
Decrease (Increase) in prepaid expense and other assets	867	(1,908)
(Increase) in assets held for the Federal USF	(323,838)	(720,499)
Decrease in receivable from the Federal USF	1,993	104
(Decrease) Increase in accounts payable and accrued liabilities	(888)	1,311
Increase (Decrease) in deferred revenue	514	(2,417)
Increase in deferred rent	825	1,643
Increase in liabilities related to assets held for the Federal USF	323,838	720,499
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 5,935	\$ 3,328

Supplemental disclosure of non-cash information:

Capital expenditures included in accounts payable	\$ 1,354	\$ 135
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The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

As of And For the Years Ended December 31, 2013 and 2012

1 ORGANIZATION AND BASIS OF PRESENTATION

The Universal Service Administrative Company (“USAC” or the “Company”) was incorporated, effective September 17, 1997, as a not-for-profit, independent, wholly-owned subsidiary of the National Exchange Carrier Association, Inc. (“NECA”), and appointed by the Federal Communications Commission (“FCC”) to administer the Universal Service Fund (“USF”) and the universal service support mechanisms. USAC’s Board of Directors consists of independent directors representing a cross-section of stakeholders in the USF and the universal support mechanisms. Pursuant to 47 C.F.R. § 54.703(a), USAC’s Board of Directors is separate from NECA’s Board of Directors and NECA is prohibited from participating in USAC’s functions.

The FCC, in its Report and Order in CC Docket Nos. 96-45 and 97-21 (“Universal Service Order”) released May 8, 1997 and November 20, 1998, respectively, determined that USAC should serve as the permanent administrator of the High Cost, Lifeline, Rural Health Care, and Schools and Libraries Universal Service Support Mechanisms, collectively referred to herein as the “Programs,” established pursuant to Section 254 of the Communications Act of 1934, as amended.

USAC, as the administrator of the USF, performs billing, collection, and disbursement functions. It also collects information regarding contributing entities’ and end-user telecommunications revenues, and submits projections of demand, administrative expenses for the Programs, and quarterly universal service contribution data to the FCC.

The functions of USAC as the administrator of the USF also include, but are not limited to, development of applications and associated instructions as needed for the Programs, administering the application process consistent with applicable FCC rules and related operational infrastructure for such processes, performing outreach and public

education functions, performing audits of contributing telecommunications carriers reporting information to USAC as required under 47 C.F.R. Part 54, Subpart H, performing audits of telecommunications carriers receiving High Cost and/or Lifeline Program benefits, and schools, libraries, and rural health care providers and beneficiaries receiving program benefits, and development and implementation of other functions unique to the Programs.

Funds collected by USAC from telecommunications carriers required to contribute to the USF pursuant to 47 U.S.C. § 254 and 47 C.F.R. § 54.706 are restricted as to their intended use related to the Programs discussed above. The cash and other financial assets USAC holds and administers for the benefit of the USF are reported at fair value in the Statements of Financial Position as assets held for the Federal USF, with an equal amount recorded as liabilities related to assets held for the Federal USF. Activities related to the USF are not presented in USAC’s Statements of Operations and Change in Unrestricted Net Assets and Statements of Cash Flows.

NECA, a related party to USAC, performs data collection functions for the High Cost Program pursuant to FCC rules and bills USAC for the associated costs. NECA is compensated by USAC in accordance with NECA’s Cost Accounting and Procedures Manual. For the years ended December 31, 2013 and 2012, the expense recognized for services rendered by NECA was \$371,110 and \$450,255, respectively. These expenses are included in contractual expenses in the accompanying Statements of Operations and Change in Unrestricted Net Assets. At December 31, 2013 and 2012, amounts due to NECA were \$43,307 and \$81,890, respectively.

The accompanying financial statements have been prepared on the accrual basis of accounting, in conformity with the accounting principles generally accepted in the United States of America.

2 SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Fixed Assets — Fixed assets consist of office furniture, office equipment, computer hardware, computer software and leasehold improvements. These assets are carried at cost, net of accumulated depreciation and amortization. Projects in progress consist primarily of development costs of internal use software. If an asset acquired has a cost exceeding \$3,500 and a useful life exceeding one year, it is capitalized. Bulk purchases made in a single transaction are capitalized when a quantity of similar items individually cost \$500 or more and less than \$3,500 and where the total acquisition cost is greater than \$18,000. Capitalizable bulk purchase items include furniture and fixtures and exclude personal computers. Depreciation of furniture and equipment is calculated on a straight-line basis over the seven-year estimated useful lives of those assets. Depreciation and amortization of hardware and software are calculated on a straight-line basis over the three-to five-year estimated lives of those assets. Amortization of leasehold improvements is calculated on a straight-line basis over the shorter of the remaining period of the respective leases or estimated useful lives of the improvements. Maintenance and repairs are expensed to operations as incurred.

Receivable from the Federal USF — USAC bills the USF monthly on the basis of net cash disbursements. Collections against the receivable are collected in full from the USF by USAC at the beginning of the subsequent month.

Advance from the Federal USF – Represents cash advanced by the USF that allows USAC to make operating disbursements without placing USAC in a negative cash position. The amount is subject to adjustment to account for expected increases or decreases in cash-flow requirements.

Deferred Revenue — This represents the portion of revenues billed and/or collected through the Receivable from the Federal USF process where the corresponding expense is being recognized on the accrual basis and lags behind the disbursement used to bill revenue. Deferred revenue is typically generated by capital or prepaid disbursements.

Revenue — USAC, as the administrator of the USF, recognizes revenue when services are rendered. Revenues are equal to the cost of providing administrative support to the USF and the Programs, and to other FCC fund administrators. Such costs are paid by USF and by the other FCC fund administrators to USAC. These transactions are considered exchange transactions in accordance with the AICPA's Audit and Accounting Guide for Not-for-Profit Entities. The other FCC fund administrators provide administrative support for the Telecommunications Relay Services ("TRS"), North American Numbering Plan ("NANP"), and Local Number Portability ("LNP") programs. USAC invoices these administrators for direct and indirect charges it incurs each month for the data collection and management functions on their behalf.

Concentration of Credit Risk — Financial instruments that potentially subject USAC, as the administrator of the USF, to concentration of credit risk consist principally of cash, cash equivalents, short-term and long-term investments, and receivables from contributors. USAC, as the administrator of the USF, places its cash, cash equivalents, and short-term and long-term investments with high quality credit institutions. USAC maintains its cash and cash equivalents with financial institutions which are federally insured under the Federal Depository Insurance Corporation Act ("FDIC"). The total deposits at these institutions are generally in excess of federally insured amounts. Deposits

in excess of federally insured amounts are fully collateralized. Collateral assets consist of Category 1 assets (Obligations issued and fully insured or guaranteed by the United States Government or a United States Government agency) and Category 2 assets (Obligations of United States Government-Sponsored Enterprises (GSEs) and Government-Sponsored Corporations (GSCs)) as defined in 31 C.F.R. 203. USAC has not experienced any losses on its cash and cash equivalents. In the normal course, USAC also has invested cash held for the benefit of the USF in U.S. Treasury securities, which are classified under Assets held for the Federal USF.

3 ACTIVITIES RELATED TO THE FEDERAL USF

As discussed in Note 1, the cash and other financial assets of the USF, which USAC administers and acts as an intermediary for, are reported at fair value in the Statements of Financial Position as assets held for the Federal USF, with an equal amount recorded as liabilities related to assets held for the Federal USF. The summary of assets applicable to the USF included below provides additional detail with respect to these amounts.

	DECEMBER 31	
In thousands	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 699,612	\$ 648,899
Investments	1,096,620	3,115,103
Accounts receivable	1,271,726	1,391,688
Allowance for doubtful accounts	(510,550)	(558,781)
Interest receivable	11,010	5,030
Total Current Assets held for Federal USF	\$ 2,568,418	\$ 4,601,939
Fixed Assets	8,020	5,486
Investments	5,126,399	2,769,040
Total Assets Held for Federal USF	\$ 7,702,837	\$ 7,376,465

Cash and Cash Equivalents — USAC, as the administrator of the USF, considers all highly liquid securities with an original maturity of three months or less as of the financial statement date to be cash equivalents.

Short-Term Investments — USAC, as the administrator of the USF, considers all securities purchased with an original maturity of greater than three months and a current maturity of less than or equal to one year to be short-term investments. Short-term investments consist solely of United States Treasury securities with readily determinable fair values. USAC, as the administrator of the USF, accounts for its investments in accordance with investment accounting standards for not-for-profit organizations. At December 31, 2013 and 2012, there were \$1.10 billion and \$3.12 billion in short-term investments, respectively.

Long-Term Investments — USAC, as the administrator of the USF, considers all securities purchased with a current maturity of greater than one year to be long-term investments. These investments are accounted for in accordance with fair value measurement accounting standards. Long-term investments consist primarily of United States Treasury debt securities with readily determinable fair values, none of which have maturities greater than three years. At December 31, 2013 and 2012, there were \$5.13 billion and \$2.77 billion in long-term investments, respectively.

Accounts Receivable and Allowance for Doubtful Accounts — USAC, as the administrator of the USF, recognizes accounts receivable arising from amounts billed to contributors and the recovery of funds from service providers and beneficiaries, which remain unpaid. Accounts receivable are recorded at invoiced amounts and generally do not bear interest. Based on the Debt Collection Improvement Act ("DCIA"), all receivables over 90-days delinquent are transferred to the United States Treasury for collection, except for receivables where the debtor has appealed the validity of the amount owed or the debtor has sought protection under Chapter 7 or 11 of the United States Bankruptcy Code. The DCIA receivable balances transferred to the Treasury

remain as USF receivables. All receipts of DCIA transferred receivables are held by USAC for the benefit of the USF and, if collected by the FCC, are transferred to USAC for the benefit of the USF.

Gross receivables are reduced to net realizable value by the allowance for doubtful accounts, which reflects the Company's estimate of exposure to risk of nonpayment of billed balances, determined principally on the basis of its collection experience. The allowance includes reserves for amounts on appeal, identified bankruptcies, identified inactive contributors, delinquent amounts that are referred to the United States Treasury for collection, and other items. Management periodically reviews such estimates and management's assessment of recoverability may change based on actual results.

Accounts receivable write-offs are periodically submitted by USAC to the FCC for approval. Generally, each account has been outstanding more than five years prior to write-off consideration. USF write-off policy is determined based on the FCC Policies and Procedures Manual, Chapter 4: Accounts Receivable and Revenues, Section 360: Cancellation, Termination, Write-Off and Close-out Policy of Delinquent Debt. The Commission's authority to write-off is set forth in 31 U.S.C. § 3711, and 31 C.F.R. Parts 902-904, Federal Claims Collection Standards ("FCCS").

4 FIXED ASSETS

Fixed Assets as of December 31, 2013 and 2012 are as follows:

DECEMBER 31		
In thousands	2013	2012
FIXED ASSETS		
Office furniture	\$ 2,517	\$ 2,378
Office equipment	225	225
Computer hardware	7,809	6,592
Computer software	23,047	23,056
Leasehold improvements	2,602	2,405
Projects in progress	2,390	48
Total Fixed Assets	\$ 38,590	\$ 34,704
Less accumulated depreciation and amortization	(30,570)	(29,218)
Net Fixed Assets	\$ 8,020	\$ 5,486

Depreciation and amortization expense was \$2,619 and \$4,587 for the years ended December 31, 2013 and 2012, respectively.

5 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurement accounting standards establish a common definition for fair value to be applied to accounting principles generally accepted in the United States requiring use of fair value. These standards establish a framework for measuring fair value and expand disclosures about such fair value measurements. These standards also clarify that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

As a basis for considering assumptions, fair value measurement accounting standards establish a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. Fair value measurement accounting standards require that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access;

Level 2 — Inputs, other than quoted prices in active markets for similar assets or liabilities, that are observable either directly or indirectly; and

Level 3 — Unobservable inputs for which there is little or no market data, requiring the reporting entity to develop its own assumptions (i.e., separate accounts tailored and managed by a portfolio manager).

USAC utilizes the best information available in measuring fair value, and financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

The following table summarizes the valuation of the investments according to the fair value measurement classifications as of December 31, 2013:

In thousands	US Treasuries
Total	\$ 6,223,019
Active Markets for Identical Assets (Level 1)	\$ 6,223,019
Observable Inputs (Level 2)	\$ 0
Unobservable Inputs (Level 3)	\$ 0

The following table summarizes the valuation of the investments according to the fair value measurement classifications as of December 31, 2012:

In thousands	US Treasuries
Total	\$ 5,884,143
Active Markets for Identical Assets (Level 1)	\$ 5,884,143
Observable Inputs (Level 2)	\$ 0
Unobservable Inputs (Level 3)	\$ 0

6 INCOME TAXES

USAC is a not-for-profit corporation subject to income taxes, including those that arise from the permanent and temporary differences between financial and tax accounting related to meals and entertainment expense, compensated absences and depreciation. Income taxes for 2013 and 2012 are not material and are included as a component of general and administrative expenses.

7 COMMITMENTS AND CONTINGENCIES

Fixed Contract Commitments

Bank of America Agreement — On June 10, 2013, USAC entered into an agreement with Bank of America (“Bank of America Agreement”) for banking and investment management services. The Bank of America Agreement is a two-year contract that runs from July 1, 2013 to June 30, 2015, with an additional three option years that can be exercised at the discretion of USAC. Under the agreement, Bank of America provides banking and investment management services for a fixed monthly contractual amount. Fees for banking and investment management services under the arrangement total \$1.5 million per year. The Bank of America contract is a cancellable agreement.

Solix Agreement — Solix, Inc. provides to USAC contracted program operations services for the Schools and Libraries and Rural Health Care Programs. On March 27, 2012, USAC signed a contract extension with Solix for a period of two years or until June 30, 2014. The future contractual required payments for the period January 1, 2014 through June 30, 2014, under the Agreement for both the Schools and Libraries and Rural Health Care Programs total \$21.2 million. On March 27, 2014, USAC signed a contract extension with Solix for a period of two years or until June 30, 2016. The future contractual required payments for the period July 1, 2014 through June 30, 2016, under the Agreement for the Schools and Libraries Program total \$58.5 million.

Lease Commitments

USAC leases its office space under an operating lease agreement expiring on November 30, 2020. At December 31, 2013, the future minimal

rental payments under these leases are as follows (in thousands):

2014	\$ 3,421
2015	3,224
2016	3,956
2017	4,064
2018	4,167
2019	4,272
2020	4,006
TOTAL	\$ 27,110

Rent expenses under operating leases were \$3.4 million and \$3.2 million for the years ended December 31, 2013 and 2012, respectively.

Legal Disputes

The Company (USAC) is presently not involved in legal proceedings and claims where the company is a defendant. The Company reports matters where the value of a claim asserted by or against the Company exceeds \$500,000 or more for an individual matter, or for matters relating to the same plaintiff or defendant that in the aggregate amount to \$500,000 or more. The Company reports the following matter that is now closed:

- A complaint was filed against the Company on December 28, 2007 by a Schools and Libraries Support Mechanism service provider (plaintiff) in Texas alleging the Company failed to make payments on approved funding requests for a support mechanism applicant. Plaintiff seeks to recover liquidated damages of approximately \$778,000 plus exemplary damages of three times this amount. On September 22, 2008, the United States District Court for the Southern District of Texas dismissed plaintiff’s claim without prejudice. Plaintiff appealed the district court’s decision to the United States Court of Appeals for the Fifth Circuit. In addition, plaintiff appealed the Company’s decision to withhold program funding to the Federal Communications Commission pursuant to 47 C.F.R. Part 54, Subpart I. On August 28, 2009, the FCC Wireline Competition Bureau (Bureau) released an order (DA 09-1946) affirming the Company’s decision and directing

plaintiff and the Company to take certain actions toward resolving the matter. Plaintiff then filed a Petition for Reconsideration of a portion of the Bureau’s decision with the Commission on September 27, 2009. On July 1, 2010, the Deputy Chief of the Bureau released an order (DA 10-1244) denying plaintiff’s petition for reconsideration of the Bureau’s August 28, 2009 decision. On July 30, 2010, plaintiff filed a petition requesting that the FCC reverse the Bureau’s July 1, 2010 order. On January 10, 2012, the FCC issued an order (FCC 12-08) denying plaintiff’s petition and holding that Company acted appropriately. On March 8, 2012, the Fifth Circuit Court of Appeals vacated the district court’s dismissal of plaintiff’s complaint and remanded the case back to the district court for adjudication of the state law tort claims. On July 7, 2012, the Company answered plaintiff’s amended complaint and also filed a motion requesting the court grant summary judgment in Company’s favor.

On March 29, 2013, the court dismissed plaintiff’s suit without prejudice because plaintiff had failed to adequately and timely prosecute its claims. This matter is now closed and will not be reported in the future.

8 RETIREMENT PLANS

USAC has a 401(k) Retirement Savings Plan covering all USAC employees. The plan is both contributory and noncontributory and all contributions are subject to certain limitations as prescribed by the plan document and government regulations. Employees are immediately vested in the employer contribution, which is funded on a current basis. Employer contributions charged to operations were \$3.3 million and \$2.8 million through December 31, 2013 and 2012, respectively.

9 SUBSEQUENT EVENTS

USAC has performed an evaluation of subsequent events through June 10, 2014, which is the date the financial statements were available to be issued.

Combining Supplemental Schedules of Assets and Liabilities Applicable to the Federal USF

As of December 31, 2013 | (Unaudited - in thousands)

2013							
	SCHOOLS AND LIBRARIES	HIGH COST	HIGH COST BROADBAND	LIFELINE	RURAL HEALTH CARE	SHARED COSTS	TOTAL USF
ASSETS							
Cash and cash equivalents	\$ (1,223,347)	\$ 252,646	\$ 1,202,319	\$ 115,594	\$ 352,400	\$ 0	\$ 699,612
Investments	6,223,019	0	0	0	0	0	6,223,019
Receivables	225,777	17,775	0	13,554	830	1,013,790	1,271,726
Allowance for doubtful accounts	(218,908)	0	0	0	(554)	(291,088)	(510,550)
Interest receivable	0	0	0	0	0	11,010	11,010
Assets held for the Federal USF	5,006,541	270,421	1,202,319	129,148	352,676	733,712	7,694,817
Receivable from USAC	3,569	6,983	0	2,290	182	0	13,024
Receivable from Programs	0	0	0	0	0	0	0
TOTAL	\$ 5,010,110	\$ 277,404	\$ 1,202,319	\$ 131,438	\$ 352,858	\$ 733,712	\$ 7,707,841
LIABILITIES							
Payable to service providers	\$ (20,400)	\$ (3,844)	\$ 0	\$ (26,480)	\$ (185)	\$ 0	\$ (50,909)
Accrued liabilities	(22,919)	(454,877)	0	(182,311)	(2,291)	0	(662,398)
TOTAL	\$ (43,319)	\$ (458,721)	\$ 0	\$ (208,791)	\$ (2,476)	\$ 0	\$ (713,307)

Note — This schedule represents assets and liabilities of the Federal USF at December 31, 2013, for each of the support programs.

Combining Supplemental Schedules of Assets and Liabilities Applicable to the Federal USF

As of December 31, 2012 | (Unaudited - in thousands)

2012						
	SCHOOLS AND LIBRARIES	HIGH COST	HIGH COST BROADBAND	LIFELINE	RURAL HEALTH CARE	TOTAL USF
ASSETS						
Cash and cash equivalents	\$ (976,366)	\$ 209,006	\$ 877,225	\$ 187,296	\$ 351,739	\$ 648,900
Investments	5,884,144	0	0	0	0	5,884,144
Receivables	522,675	575,371	0	283,883	9,758	1,391,687
Allowance for doubtful accounts	(289,492)	(207,609)	0	(57,091)	(4,589)	(558,781)
Interest receivable	4,795	(55)	0	271	19	5,030
Assets held for the Federal USF	5,145,756	576,713	877,225	414,359	356,927	7,370,980
Receivable from USAC	(83,191)	79,432	0	25,831	(9,048)	13,024
Receivable from Programs	0	0	0	0	0	0
TOTAL	\$ 5,062,565	\$ 656,145	\$ 877,225	\$ 440,190	\$ 347,879	\$ 7,384,004
LIABILITIES						
Payable to service providers	\$ (14,993)	\$ (2,897)	\$ 0	\$ (2,881)	\$ (23)	\$ (20,794)
Accrued liabilities	(11,279)	(370,217)	0	(198,068)	(646)	(580,210)
TOTAL	\$ (26,272)	\$ (373,114)	\$ 0	\$ (200,949)	\$ (669)	\$ (601,004)

Note — This schedule represents assets and liabilities of the Federal USF at December 31, 2012, for each of the support programs.

Combining Supplemental Schedules of Changes in Net Assets Applicable to the Federal USF

For the Years Ended December 31, 2013 and 2012 | (Unaudited - in thousands)

	2013					2012				
	SCHOOLS AND LIBRARIES	HIGH COST	LIFELINE	RURAL HEALTH CARE	TOTAL	SCHOOLS AND LIBRARIES	HIGH COST	LIFELINE	RURAL HEALTH CARE	TOTAL
ADDITIONS										
Amounts billed to contributors	\$ 2,355,953	\$ 4,543,701	\$ 1,635,156	\$ 176,453	\$ 8,711,263	\$ 2,379,504	\$ 4,625,065	\$ 2,452,194	\$ 127,374	\$ 9,584,137
Non exchange revenue bad debt	(1,459)	(2,834)	635	(120)	(3,778)	(11,297)	(22,727)	(10,632)	(635)	(45,291)
Interest income	15,839	3,722	708	1,118	21,387	13,263	7,846	522	4,953	26,584
Total additions	2,370,333	4,544,589	1,636,499	177,451	8,728,872	2,381,470	4,610,184	2,442,084	131,692	9,565,430
DEDUCTIONS										
Amount paid and due to service providers	2,202,058	4,251,125	1,789,139	157,180	8,399,502	2,275,335	4,131,565	2,204,537	154,956	8,766,393
Bad debt expenses	2,881	0	483	0	3,364	(49,989)	35,590	(886)	513	(14,772)
Operating expenses	64,276	20,679	9,699	12,558	107,212	69,974	16,709	7,457	13,870	108,010
Unrealized/realized gain or loss	4,703	(9)	(2)	(3)	4,689	(4,622)	0	0	0	(4,622)
Total deductions	2,273,918	4,271,795	1,799,319	169,735	8,514,767	2,290,698	4,183,864	2,211,108	169,339	8,855,009
CHANGES IN NET ASSETS	\$ 96,415	\$ 272,794	\$ (162,820)	\$ 7,716	\$ 214,105	\$ 90,772	\$ 426,320	\$ 230,976	\$ (37,647)	\$ 710,421

Note — This schedule represents the changes in net assets of the Federal USF for the years ended December 31, 2013 and 2012, for each of the support programs.

Combining Supplemental Schedules of Cash Flows Applicable to the Federal USF

For the Year Ended December 31, 2013 | (Unaudited - in thousands)

	2013				
	SCHOOLS AND LIBRARIES	HIGH COST	LIFELINE	RURAL HEALTH CARE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from contributors	\$ 2,401,504	\$ 4,493,148	\$ 1,694,773	\$ 176,685	\$ 8,766,110
Interest received	(13,206)	(7,344)	979	1,137	(18,434)
Cash paid to service providers	(2,185,010)	(4,165,519)	(1,781,297)	(155,373)	(8,287,199)
Cash paid for administrative costs	(151,037)	51,770	13,843	(21,788)	(107,212)
Interfund transfers	0	0	0	0	0
Net cash provided by (used in) operating activities	52,251	372,055	(71,702)	661	353,265
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investments	4,779,226	0	0	0	4,779,226
Purchase of investments	(5,081,779)	0	0	0	(5,081,779)
Net cash used in investing activities	(302,553)	0	0	0	(302,553)
INCREASE (DECREASE) IN CASH EQUIVALENTS	(246,981)	368,734	(71,702)	661	50,712
CASH AND CASH EQUIVALENTS					
Beginning of year	(976,366)	1,086,231	187,296	351,739	648,900
END OF YEAR	\$ (1,223,347)	\$ 1,454,965	\$ 115,594	\$ 352,400	\$ 699,612
RECONCILIATION OF CHANGES IN NET ASSETS PROVIDED BY (USED IN) CASH FROM OPERATING ACTIVITIES					
Change in net assets	\$ 96,415	\$ 272,794	\$ (162,820)	\$ 7,716	\$ 214,105
<i>Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:</i>					
Bad debt expense	(292,813)	311,908	(57,091)	(4,589)	(42,585)
Amortized discount	(33,840)	0	0	0	(33,840)
Unrealized/realized gain or loss	4,703	(9)	(2)	(3)	4,689
<i>Changes in operating assets and liabilities:</i>					
Decrease (increase) in interest receivable	4,795	(11,066)	271	19	(5,981)
Decrease (increase) in accounts receivable	342,704	(359,627)	116,556	4,941	104,574
Decrease (increase) in receivable from USAC	(86,761)	72,449	23,542	(9,230)	0
Decrease (increase) in other assets	0	0	0	0	0
Increase (decrease) in liabilities	17,048	85,606	7,842	1,807	112,303
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 52,251	\$ 372,055	\$ (71,702)	\$ 661	\$ 353,265

Note — This schedule represents the cash flows of the Federal USF for the year ended December 31, 2013, for each of the support programs.

Combining Supplemental Schedules of Cash Flows Applicable to the Federal USF

For the Year Ended December 31, 2012 | (Unaudited - in thousands)

	2012				
	SCHOOLS AND LIBRARIES	HIGH COST	LIFELINE	RURAL HEALTH CARE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from contributors	\$ 2,533,493	\$ 4,620,496	\$ 2,398,408	\$ 124,292	\$ 9,675,583
Interest received	18,395	8,546	586	5,438	32,965
Cash paid to service providers	(2,280,936)	(4,121,873)	(2,184,922)	(155,785)	(8,742,410)
Cash paid for administrative costs	(69,974)	(16,709)	(7,457)	(13,870)	(108,010)
Interfund transfers	0	47,000	(47,000)	0	0
Net cash provided by (used in) operating activities	200,978	537,460	159,615	(39,925)	858,128
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investments	3,741,480	0	0	0	3,741,480
Purchase of investments	(4,441,656)	0	0	0	(4,441,656)
Net cash used in investing activities	(700,176)	0	0	0	(700,176)
INCREASE (DECREASE) IN CASH EQUIVALENTS	(499,198)	537,460	159,615	(39,925)	157,952
CASH AND CASH EQUIVALENTS					
Beginning of year	(477,168)	548,771	27,681	391,664	490,948
END OF YEAR	\$ (976,366)	\$ 1,086,231	\$ 187,296	\$ 351,739	\$ 648,900
RECONCILIATION OF CHANGES IN NET ASSETS PROVIDED BY (USED IN) CASH FROM OPERATING ACTIVITIES					
Change in net assets	\$ 90,772	\$ 426,320	\$ 230,976	\$ (37,647)	\$ 710,421
<i>Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:</i>					
Bad debt expense	(38,693)	58,317	9,746	1,147	30,517
Amortized discount	3,939	0	0	0	3,939
Unrealized/realized gain or loss	(4,622)	0	0	0	(4,622)
<i>Changes in operating assets and liabilities:</i>					
Decrease (increase) in interest receivable	1,193	700	64	485	2,442
Decrease (increase) in accounts receivable	153,990	(5,675)	(53,786)	(3,081)	91,448
Decrease (increase) in receivable from USAC	0	0	0	0	0
Decrease (increase) in other assets	0	0	0	0	0
Increase (decrease) in liabilities	(5,601)	10,798	19,615	(829)	23,983
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 200,978	\$ 490,460	\$ 206,615	\$ (39,925)	\$ 858,128

Note — This schedule represents the cash flows of the Federal USF for the year ended December 31, 2012, for each of the support programs.

INDEPENDENT AUDITOR'S REPORT

DP George & Company 

2121 Eisenhower Avenue, Suite 606
Alexandria, VA 22314
Telephone 703-229-4441

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 of Universal Service Administrative Company:

We have audited, in accordance with the 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, the financial statements of Universal Service Administrative Company (the Company) which comprise the statement of financial position as of December 31, 2013, and the related statements of operations and change in unrestricted net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 10, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We noted certain additional matters involving internal control over financial reporting that we will report to the Company's management in a separate letter.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Company's financial statements are free from material misstatement, we performed tests of its compliance 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*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DP George & Company, LLC

DP George & Company, LLC
Alexandria, Virginia
June 10, 2014

2014 UNIVERSAL SERVICE PROGRAM STATISTICS

The following pages contain data from the four universal service programs administered by USAC. To better understand the data, please note the difference between authorized support and funding commitments, as well as funding year versus calendar year.

FUNDING YEAR

For the Rural Health Care and Schools and Libraries programs, a funding year runs from July 1 to June 30 of the following year.

CALENDAR YEAR

The High Cost and Lifeline programs disburse funds on a calendar year basis. Data in these tables are for calendar year 2014.

AUTHORIZED SUPPORT

Authorized support represents funding that has been approved for disbursement for January through December 2014. It does not include recoveries from audits, appeals, or other enforcement actions during that timeframe.

FUNDING COMMITMENTS

Funding commitments are not disbursements. Funding commitments are issued by the Rural Health Care and Schools and Libraries programs via commitment letters that approve what will be funded through support for a particular funding year.

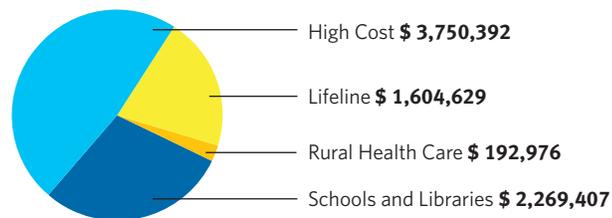
Commitments made in calendar year 2014 may be for applications filed during previous funding years and/or the current funding year.

RURAL HEALTH CARE AND SCHOOLS AND LIBRARIES PROGRAMS

Period	Start Date	End Date
Funding Year 2012	July 1, 2012	June 30, 2013
Funding Year 2013	July 1, 2013	June 30, 2014
Funding Year 2014	July 1, 2014	June 30, 2015

2014 Authorized Support by Program

(Unaudited - in thousands)



Total \$ 7,817,404

High Cost Program

Authorized Support by Component, 2014 | (Unaudited - in thousands)

CONNECT AMERICA FUND				
State	Frozen Support ¹	Incremental Support	Intercarrier Compensation	Mobility Fund Phase I
Alabama	\$ 50,416	\$ 5,454	\$ 12,050	\$ 0
Alaska	125,462	0	9,106	814
American Samoa	1,619	0	244	0
Arizona	20,668	0	6,166	1,036
Arkansas	41,799	826	10,951	0
California	43,016	0	2,814	0
Colorado	44,454	0	2,038	0
Connecticut	464	0	0	0
Delaware	228	0	0	0
District of Columbia	0	0	0	0
Florida	47,805	208	9,687	0
Georgia	35,712	2,563	18,105	0
Guam	5,405	0	85	0
Hawaii	7,132	0	5,233	0
Idaho	18,363	0	5,096	0
Illinois	27,204	0	9,454	0
Indiana	15,981	0	4,952	0
Iowa	38,848	528	17,497	0
Kansas	28,812	0	6,978	0
Kentucky	42,416	871	31,174	0
Louisiana	55,117	0	2,762	0
Maine	14,499	0	2,341	0
Maryland	2,303	0	302	0
Massachusetts	1,467	0	529	0
Michigan	13,204	0	4,449	0
Minnesota	14,740	0	18,361	0
Mississippi	170,677	288	6,094	0
Missouri	36,771	376	14,044	0
Montana	20,966	0	5,863	1,005
Nebraska	20,340	133	11,190	0
Nevada	11,477	0	2,287	0
New Hampshire	1,554	0	2,414	0
New Jersey	258	0	325	0
New Mexico	17,166	180	4,668	697
New York	22,591	377	6,445	0
North Carolina	36,596	1,446	19,667	0
North Dakota	26,247	0	10,210	0
Northern Mariana Islands	1,265	0	0	0
Ohio	12,664	278	12,524	0
Oklahoma	39,142	258	16,291	0
Oregon	30,995	0	9,042	0
Pennsylvania	55,106	795	14,241	0
Puerto Rico	115,237	0	0	0
Rhode Island	30	0	0	0
South Carolina	13,189	238	19,611	0
South Dakota	2,849	0	10,871	0
Tennessee	15,457	0	11,107	0
Texas	66,467	1,896	12,909	0
Utah	3,007	0	3,785	8
Vermont	8,597	0	4,666	0
Virgin Islands	16,428	0	0	0
Virginia	48,911	0	20,459	0
Washington	47,983	0	6,604	0
West Virginia	37,393	0	2,083	0
Wisconsin	43,554	0	13,988	0
Wyoming	18,720	0	3,493	0
TOTAL	\$ 1,638,775	\$ 16,714	\$ 425,251	\$ 3,561

Note — High Cost Model and Interstate Access Support were eliminated in January 2012; Local Switching Support was eliminated in July 2012. Numbers may not add due to rounding.
¹Frozen Support includes frozen Price Cap Support and frozen CETC Support.

High Cost Loop	Interstate Common Line Support	Total Authorized Support ² 2014	Total Support ³ 1998-2014	State
\$ 10,026	\$ 13,888	\$ 91,833	\$ 1,651,757	Alabama
24,715	25,331	185,428	2,307,695	Alaska
0	953	2,817	38,871	American Samoa
23,375	14,996	66,242	1,091,331	Arizona
16,699	14,331	84,604	1,816,905	Arkansas
24,839	21,534	92,204	1,496,047	California
12,772	8,756	68,019	1,199,983	Colorado
0	0	464	18,917	Connecticut
0	0	228	7,089	Delaware
0	0	0	0	District of Columbia
1,655	4,053	63,408	1,144,346	Florida
21,557	29,455	107,393	1,837,042	Georgia
0	4,862	10,351	173,828	Guam
7,072	4,063	23,500	495,706	Hawaii
10,143	9,260	42,862	805,492	Idaho
15,920	19,413	71,991	982,828	Illinois
31,920	27,921	80,775	1,003,175	Indiana
31,595	40,557	129,025	1,557,410	Iowa
70,500	44,413	150,702	2,536,965	Kansas
19,304	27,318	121,082	1,349,867	Kentucky
13,383	13,318	84,581	1,831,977	Louisiana
1,023	5,919	23,783	491,092	Maine
0	968	3,573	57,716	Maryland
0	216	2,212	68,122	Massachusetts
4,758	10,702	33,114	804,846	Michigan
27,479	43,752	104,332	1,584,488	Minnesota
5,786	6,827	189,673	3,348,322	Mississippi
25,999	24,288	101,477	1,516,438	Missouri
33,137	30,065	91,035	1,221,208	Montana
21,558	21,037	74,258	1,102,877	Nebraska
4,629	5,031	23,424	415,314	Nevada
418	4,901	9,287	162,514	New Hampshire
0	358	942	32,727	New Jersey
30,843	18,748	72,301	1,006,119	New Mexico
1,617	10,228	41,259	810,759	New York
5,073	22,370	85,152	1,167,698	North Carolina
25,213	32,536	94,206	1,142,672	North Dakota
0	0	1,265	37,473	Northern Mariana Islands
4,882	10,603	40,952	587,017	Ohio
36,385	36,916	128,992	1,921,116	Oklahoma
15,915	16,080	72,032	1,154,386	Oregon
321	7,002	77,465	928,710	Pennsylvania
0	0	115,237	2,413,361	Puerto Rico
0	0	30	611	Rhode Island
23,832	44,338	101,207	1,384,147	South Carolina
31,254	29,660	74,633	1,046,654	South Dakota
9,534	32,212	68,310	895,485	Tennessee
83,771	60,100	225,143	3,611,189	Texas
4,993	12,438	24,231	344,197	Utah
531	5,587	19,381	403,857	Vermont
0	0	16,428	374,962	Virgin Islands
1,022	9,647	80,039	1,132,022	Virginia
5,794	8,785	69,165	1,344,672	Washington
1,490	3,162	44,128	1,056,391	West Virginia
26,212	38,118	121,871	1,884,125	Wisconsin
9,857	10,277	42,347	778,665	Wyoming
\$ 778,799	\$ 887,292	\$ 3,750,392	\$ 59,579,187	TOTAL

² Authorized Support includes all funding approved for disbursement for the months of January-December 2014, including funding approved but not yet disbursed (due to the Red Light Rule). It does not include recoveries from audits, appeals, or other enforcement actions.

³ Total Support includes all funding approved for disbursement and is reflective of recoveries from audits, appeals, or other enforcement actions, as of December 31, 2014.

High Cost Program

Authorized Support by Carrier Type, 2014 | (Unaudited - in thousands)

State	INCUMBENT CARRIERS			
	Competitive Carriers	Price Cap/Rate of Return Affiliates	Rate of Return	Authorized Support ¹ 2014
Alabama	\$ 5,039	\$ 51,860	\$ 34,934	\$ 91,833
Alaska	106,586	19,690	59,152	185,428
American Samoa	1,619	0	1,197	2,817
Arizona	6,302	16,193	43,746	66,242
Arkansas	2,951	41,817	39,836	84,604
California	38	43,360	48,806	92,204
Colorado	6,048	38,573	23,398	68,019
Connecticut	0	464	0	464
Delaware	0	228	0	228
District of Columbia	0	0	0	0
Florida	3,143	49,793	10,472	63,408
Georgia	2,098	42,719	62,576	107,393
Guam	5,405	0	4,946	10,351
Hawaii	5,163	1,969	16,368	23,500
Idaho	4,208	14,431	24,223	42,862
Illinois	8,628	19,201	44,161	71,991
Indiana	58	16,060	64,656	80,775
Iowa	30,580	10,783	87,662	129,025
Kansas	20,447	8,374	121,880	150,702
Kentucky	16,297	36,687	68,098	121,082
Louisiana	25,563	29,587	29,431	84,581
Maine	6,661	7,839	9,284	23,783
Maryland	0	2,303	1,270	3,573
Massachusetts	0	1,467	745	2,212
Michigan	4,408	8,847	19,858	33,114
Minnesota	1,353	14,314	88,665	104,332
Mississippi	87,683	83,813	18,178	189,673
Missouri	10,065	29,441	61,972	101,477
Montana	8,284	13,780	68,971	91,035
Nebraska	10,825	11,219	52,214	74,258
Nevada	1,243	10,327	11,853	23,424
New Hampshire	131	1,423	7,733	9,287
New Jersey	0	270	672	942
New Mexico	8,476	10,264	53,561	72,301
New York	1,464	23,229	16,565	41,259
North Carolina	2,076	43,808	39,268	85,152
North Dakota	25,847	425	67,934	94,206
Northern Mariana Islands	581	683	0	1,265
Ohio	0	18,230	22,721	40,952
Oklahoma	26,022	15,084	87,885	128,992
Oregon	11,354	19,760	40,917	72,032
Pennsylvania	178	64,208	13,079	77,465
Puerto Rico	79,183	36,054	0	115,237
Rhode Island	0	30	0	30
South Carolina	1,772	12,303	87,133	101,207
South Dakota	1,821	1,063	71,749	74,633
Tennessee	680	14,919	52,712	68,310
Texas	10,013	63,022	152,107	225,143
Utah	97	2,998	21,137	24,231
Vermont	0	8,597	10,784	19,381
Virgin Islands	67	16,361	0	16,428
Virginia	3,200	46,119	30,720	80,039
Washington	18,482	30,633	20,050	69,165
West Virginia	8,679	28,945	6,504	44,128
Wisconsin	20,908	22,943	78,019	121,871
Wyoming	5,819	12,912	23,616	42,347
TOTAL	\$ 607,547	\$ 1,119,425	\$ 2,023,420	\$ 3,750,392

Note — Numbers may not add due to rounding.

¹ Authorized Support includes all funding approved for disbursement for the months of January-December 2014, including funding approved but not yet disbursed (due to the Red Light Rule). It does not include recoveries from audits, appeals, or other enforcement actions.

Lifeline Program

Authorized Support by Component, 2014 | (Unaudited - in thousands)

State	Lifeline	Link Up	Total Authorized Support ¹ 2014	Total Support ² 1998-2014
Alabama	\$ 23,313	\$ 0	\$ 23,313	\$ 230,720
Alaska	12,982	31	13,014	201,519
American Samoa	28	0	28	939
Arizona	60,000	256	60,256	346,326
Arkansas	14,372	0	14,372	170,161
California	136,393	0	136,393	4,128,415
Colorado	11,253	0	11,253	61,061
Connecticut	13,112	0	13,112	117,301
Delaware	3,660	0	3,660	19,580
District of Columbia	4,936	0	4,936	32,341
Florida	104,706	0	104,706	777,816
Georgia	57,805	0	57,805	519,377
Guam	203	0	203	4,776
Hawaii	5,725	0	5,725	18,570
Idaho	2,189	0	2,189	49,533
Illinois	66,625	0	66,625	442,380
Indiana	26,066	0	26,066	134,556
Iowa	6,726	0	6,726	75,309
Kansas	8,976	0	8,976	65,793
Kentucky	27,510	0	27,510	175,718
Louisiana	32,622	0	32,622	353,764
Maine	6,441	0	6,441	144,729
Maryland	25,974	0	25,974	204,395
Massachusetts	32,562	0	32,562	339,835
Michigan	72,779	0	72,780	505,775
Minnesota	12,326	0	12,326	109,028
Mississippi	15,087	0	15,087	157,521
Missouri	22,457	0	22,457	173,057
Montana	1,832	17	1,849	42,788
Nebraska	1,211	0	1,211	29,450
Nevada	19,659	0	19,659	95,818
New Hampshire	2,160	0	2,160	17,764
New Jersey	27,902	0	27,902	280,483
New Mexico	16,650	164	16,815	174,974
New York	123,763	0	123,763	1,220,587
North Carolina	42,051	0	42,051	437,652
North Dakota	2,362	5	2,367	41,186
Northern Mariana Islands	241	0	241	2,046
Ohio	71,100	0	71,100	717,120
Oklahoma	127,076	149	127,225	1,099,568
Oregon	9,084	0	9,084	94,028
Pennsylvania	63,263	0	63,263	412,485
Puerto Rico	45,583	0	45,583	349,280
Rhode Island	6,384	0	6,384	80,574
South Carolina	33,170	1	33,171	162,494
South Dakota	868	1	868	51,467
Tennessee	40,191	0	40,191	313,453
Texas	78,711	0	78,711	1,169,373
Utah	5,254	9	5,263	54,642
Vermont	1,584	0	1,584	45,031
Virgin Islands	262	0	262	1,422
Virginia	21,725	0	21,725	167,379
Washington	23,898	0	23,898	272,801
West Virginia	8,498	0	8,498	64,438
Wisconsin	22,556	2	22,557	189,884
Wyoming	123	0	123	8,069
TOTAL	\$ 1,603,993	\$ 637	\$ 1,604,629	\$ 17,156,550

Note — Numbers may not add due to rounding.

¹ Authorized Support includes all funding approved for disbursement for the months of January–December 2014, including funding approved but not yet disbursed (due to the Red Light Rule). It does not include recoveries from audits, appeals, or other enforcement actions.

² Total Support includes all funding approved for disbursement and is reflective of recoveries from audits, appeals, or other enforcement actions, as of December 31, 2014.

Lifeline Program

Authorized Support by Carrier Type, 2014 | (Unaudited - in thousands)

State	Competitive Carriers	Incumbent Carriers	Total Authorized Support ¹ 2014
Alabama	\$ 22,293	\$ 1,020	\$ 23,313
Alaska	11,537	1,477	13,014
American Samoa	23	5	28
Arizona	57,744	2,512	60,256
Arkansas	13,725	647	14,372
California	42,026	94,367	136,393
Colorado	10,466	788	11,253
Connecticut	12,981	131	13,112
Delaware	3,603	57	3,660
District of Columbia	4,800	136	4,936
Florida	100,426	4,280	104,706
Georgia	56,280	1,524	57,805
Guam	28	175	203
Hawaii	5,307	418	5,725
Idaho	1,123	1,066	2,189
Illinois	65,716	910	66,625
Indiana	25,367	700	26,066
Iowa	5,676	1,051	6,726
Kansas	8,489	487	8,976
Kentucky	25,148	2,362	27,510
Louisiana	32,311	311	32,622
Maine	4,579	1,862	6,441
Maryland	25,623	351	25,974
Massachusetts	29,566	2,996	32,562
Michigan	71,851	929	72,780
Minnesota	9,898	2,428	12,326
Mississippi	14,699	388	15,087
Missouri	21,119	1,337	22,457
Montana	513	1,337	1,849
Nebraska	499	712	1,211
Nevada	18,929	730	19,659
New Hampshire	1,950	211	2,160
New Jersey	23,838	4,064	27,902
New Mexico	13,931	2,884	16,815
New York	110,170	13,592	123,763
North Carolina	38,748	3,303	42,051
North Dakota	1,268	1,099	2,367
Northern Mariana Islands	0	241	241
Ohio	67,304	3,796	71,100
Oklahoma	123,354	3,870	127,225
Oregon	6,330	2,754	9,084
Pennsylvania	58,833	4,430	63,263
Puerto Rico	42,686	2,897	45,583
Rhode Island	5,864	520	6,384
South Carolina	31,923	1,248	33,171
South Dakota	177	692	868
Tennessee	38,643	1,548	40,191
Texas	60,508	18,203	78,711
Utah	4,309	953	5,263
Vermont	5	1,579	1,584
Virgin Islands	214	48	262
Virginia	20,987	738	21,725
Washington	19,060	4,838	23,898
West Virginia	7,977	522	8,498
Wisconsin	21,098	1,459	22,557
Wyoming	20	103	123
TOTAL	\$ 1,401,543	\$ 203,086	\$ 1,604,629

Note — Numbers may not add due to rounding.

¹ Authorized Support includes all funding approved for disbursement for the months of January-December 2014, including funding approved but not yet disbursed (due to the Red Light Rule). It does not include recoveries from audits, appeals, or other enforcement actions.

Rural Health Care Program

Commitments, 2014 | (Unaudited - in thousands)

COMMITMENTS						
Calendar Year 2014						
State	Telecommunications & Telecom/ Internet Access Programs	Healthcare Connect Fund Program	Pilot Program ¹	Total Commitments 2014	Total Commitments 1998-2014	
Alabama	\$ 906	\$ 1,455	\$ 0	\$ 2,360	\$ 8,430	
Alaska	74,712	110	0	74,823	437,892	
American Samoa	58	0	0	58	1,512	
Arizona	2,164	87	0	2,250	24,459	
Arkansas	3,133	292	0	3,425	14,991	
California	7,871	16,054	0	23,925	69,984	
Colorado	281	7,490	0	7,771	20,857	
Connecticut	4	19	0	23	31	
Delaware	0	0	0	0	1	
District of Columbia	10	0	0	10	18	
Florida	476	96	0	572	4,415	
Georgia	4,528	4,725	0	9,253	27,350	
Guam	139	0	0	139	767	
Hawaii	0	0	0	0	7,223	
Idaho	460	208	0	668	3,960	
Illinois	2,174	786	0	2,961	38,392	
Indiana	887	496	0	1,383	22,195	
Iowa	717	1,011	0	1,728	25,209	
Kansas	772	844	0	1,616	6,957	
Kentucky	1,710	1,112	0	2,821	13,355	
Louisiana	792	420	0	1,212	18,667	
Maine	27	14	0	41	25,871	
Maryland	30	979	0	1,009	1,105	
Massachusetts	76	75	0	151	999	
Michigan	2,427	1,247	0	3,674	38,958	
Minnesota	3,498	261	0	3,758	34,518	
Mississippi	4,109	430	0	4,539	8,333	
Missouri	1,801	1,814	0	3,615	11,391	
Montana	819	113	0	932	26,390	
Nebraska	1,604	103	0	1,707	35,773	
Nevada	318	35	0	352	1,255	
New Hampshire	46	78	0	124	291	
New Jersey	0	0	0	0	0	
New Mexico	1,151	67	0	1,218	23,555	
New York	542	988	0	1,530	21,821	
North Carolina	1,153	903	0	2,056	26,826	
North Dakota	1,467	22	0	1,489	12,279	
Northern Mariana Islands	25	0	0	25	43	
Ohio	1,173	712	0	1,885	33,353	
Oklahoma	7,961	2,044	0	10,005	19,382	
Oregon	476	7,805	0	8,282	39,150	
Pennsylvania	221	2,414	0	2,635	10,644	
Puerto Rico	0	0	0	0	0	
Rhode Island	0	0	0	0	0	
South Carolina	72	3,677	0	3,748	15,897	
South Dakota	555	2,248	0	2,803	18,716	
Tennessee	797	330	0	1,127	6,647	
Texas	8,805	1,584	0	10,389	43,110	
Utah	410	2	0	412	17,993	
Vermont	45	38	0	83	830	
Virgin Islands	15	0	0	15	852	
Virginia	2,587	555	0	3,141	15,395	
Washington	335	303	0	638	2,114	
West Virginia	266	518	0	784	14,075	
Wisconsin	9,733	5,722	0	15,455	62,856	
Wyoming	405	151	0	556	3,853	
TOTAL	\$ 154,741	\$ 70,435	\$ 0	\$ 225,175	\$ 1,320,939	

Note — Numbers may not add due to rounding.

¹ No Pilot Program commitments were made during calendar year 2014.

Rural Health Care Program

Authorized Support, 2014 (Unaudited - in thousands)

State	AUTHORIZED SUPPORT ¹			Total Authorized Support 2014	Total Support ² 1998-2014
	Telecommunications & Telecom/ Internet Access Programs	Healthcare Connect Fund Program	Pilot Program		
Alabama	\$ 797	\$ 58	\$ 264	\$ 1,119	\$ 6,814
Alaska	62,286	0	0	62,286	403,550
American Samoa	347	0	0	347	1,419
Arizona	2,412	37	368	2,816	19,264
Arkansas	2,674	158	1,255	4,087	13,130
California	8,872	237	5,208	14,316	34,147
Colorado	170	2,141	534	2,845	15,083
Connecticut	4	18	0	22	30
Delaware	0	0	0	0	1
District of Columbia	0	0	0	0	8
Florida	161	25	0	185	3,768
Georgia	4,177	641	61	4,879	22,104
Guam	122	0	0	122	664
Hawaii	0	0	264	264	4,530
Idaho	384	79	0	463	3,378
Illinois	1,999	247	2,947	5,193	32,451
Indiana	707	144	1,871	2,722	16,392
Iowa	829	96	139	1,063	23,660
Kansas	658	76	0	734	5,890
Kentucky	1,796	207	348	2,351	9,748
Louisiana	683	138	0	821	2,982
Maine	24	13	6,684	6,720	20,623
Maryland	5	21	0	26	121
Massachusetts	73	62	0	135	983
Michigan	2,664	129	5,608	8,402	36,017
Minnesota	3,512	7	1,181	4,700	30,987
Mississippi	3,264	107	0	3,371	6,933
Missouri	1,395	330	167	1,891	8,568
Montana	681	22	4,426	5,129	23,184
Nebraska	1,489	7	0	1,496	34,579
Nevada	312	12	0	324	1,150
New Hampshire	31	31	0	62	215
New Jersey	0	0	0	0	0
New Mexico	759	1	2,342	3,102	15,306
New York	331	214	2,662	3,207	12,356
North Carolina	1,105	288	2,578	3,971	13,198
North Dakota	1,397	7	0	1,404	11,001
Northern Mariana Islands	12	0	0	12	21
Ohio	852	302	34	1,189	31,561
Oklahoma	6,135	242	0	6,377	14,316
Oregon	445	708	2,857	4,009	21,103
Pennsylvania	228	122	740	1,090	6,594
Puerto Rico	0	0	0	0	0
Rhode Island	0	0	0	0	0
South Carolina	66	1,042	353	1,461	9,816
South Dakota	438	658	0	1,097	16,154
Tennessee	695	75	740	1,510	4,533
Texas	8,097	377	0	8,474	23,449
Utah	221	0	1,226	1,447	14,258
Vermont	47	30	0	77	782
Virgin Islands	15	0	0	15	846
Virginia	2,302	42	75	2,419	11,043
Washington	288	46	0	334	1,649
West Virginia	206	112	1,419	1,736	6,833
Wisconsin	9,788	659	156	10,603	55,267
Wyoming	404	33	115	553	3,581
TOTAL	\$ 136,357	\$ 9,999	\$ 46,621	\$ 192,977	\$ 1,056,040

Note — Numbers may not add due to rounding.

¹ Authorized Support includes all funding approved for disbursement for calendar year 2014, including funding approved but not yet disbursed (due to the Red Light Rule). It does not include recoveries from audits, appeals, or other enforcement actions.

² Total Support includes all funding approved for disbursement and is reflective of recoveries from audits, appeals, or other enforcement actions, as of December 31, 2014.

Schools and Libraries Program

Commitments and Authorized Support, 2014 | (Unaudited - in thousands)

State	COMMITMENTS			AUTHORIZED SUPPORT ¹		
	Funding Year 2014*	Calendar Year 2014	Total Commitments 1998-2014	Funding Year 2014*	Calendar Year 2014	Total Support ² 1998-2014
Alabama	\$ 45,581	\$ 70,428	\$ 667,529	\$ 8,263	\$ 47,347	\$ 535,296
Alaska	40,262	65,516	436,515	4,708	52,387	347,732
American Samoa	1,546	1,546	36,744	0	1,132	28,239
Arizona	57,573	76,514	1,014,816	5,321	64,611	729,606
Arkansas	27,451	34,981	392,861	4,936	25,323	260,772
California	301,947	422,854	5,864,538	33,278	340,582	4,144,356
Colorado	22,707	26,299	377,738	1,978	21,731	283,274
Connecticut	21,212	28,053	412,285	1,958	18,611	327,383
Delaware	4,899	4,980	35,150	231	5,430	26,467
District of Columbia	6,936	12,588	211,430	398	8,387	132,890
Florida	77,660	115,985	1,312,697	5,445	81,541	1,036,363
Georgia	73,543	89,783	1,318,459	16,165	96,278	1,044,825
Guam	702	711	26,701	3	589	19,030
Hawaii	3,161	3,204	88,124	65	5,614	43,571
Idaho	7,955	10,433	121,026	1,050	7,537	85,687
Illinois	96,383	134,190	1,733,884	5,282	118,537	1,273,839
Indiana	57,720	62,403	573,232	11,181	47,715	391,122
Iowa	18,551	21,748	221,819	4,458	17,639	161,366
Kansas	22,255	25,074	280,720	3,427	19,576	213,807
Kentucky	28,825	37,524	636,368	2,409	36,560	455,616
Louisiana	46,862	59,954	814,109	12,327	50,403	648,747
Maine	8,843	9,522	124,608	1,881	8,305	94,866
Maryland	29,666	39,908	375,507	680	24,657	272,935
Massachusetts	31,586	44,996	554,023	4,318	32,689	402,683
Michigan	50,397	60,017	985,464	3,710	47,635	722,114
Minnesota	32,569	37,519	444,952	3,529	28,543	335,728
Mississippi	27,587	29,448	578,574	2,332	29,993	430,170
Missouri	29,072	32,431	672,749	3,521	30,470	507,273
Montana	5,511	6,554	76,015	1,241	5,425	59,542
Nebraska	10,600	11,567	148,365	2,835	10,937	125,209
Nevada	4,412	11,136	110,644	243	9,475	74,265
New Hampshire	4,136	4,915	42,118	140	3,499	28,912
New Jersey	63,479	82,885	996,135	2,398	64,758	699,521
New Mexico	22,395	33,638	637,701	1,928	26,058	446,510
New York	111,678	147,281	4,462,784	7,713	103,462	2,837,155
North Carolina	76,840	82,727	982,727	9,761	81,973	770,778
North Dakota	5,009	5,173	69,255	1,280	3,648	55,003
Northern Mariana Islands	762	762	16,475	45	723	13,217
Ohio	73,505	97,008	1,294,299	6,334	71,353	947,295
Oklahoma	63,545	76,011	867,773	14,034	60,066	648,080
Oregon	15,830	21,437	254,444	630	14,107	187,749
Pennsylvania	63,275	73,477	1,282,701	8,198	68,894	1,013,524
Puerto Rico	5,546	15,321	394,941	1,580	13,423	253,426
Rhode Island	5,799	6,993	118,569	214	7,200	94,838
South Carolina	37,950	39,691	743,611	1,300	39,291	564,267
South Dakota	5,982	6,329	94,427	451	6,906	65,040
Tennessee	46,981	59,654	898,788	7,441	38,671	672,353
Texas	157,560	221,940	3,939,900	17,613	218,274	2,983,672
Utah	34,577	37,441	307,842	99	18,837	186,440
Vermont	4,079	4,970	39,903	209	3,103	25,690
Virgin Islands	2,890	3,161	84,513	63	3,988	71,620
Virginia	40,383	46,240	554,729	2,909	35,788	432,912
Washington	25,181	31,426	479,558	2,119	35,715	358,745
West Virginia	22,978	27,411	238,649	1,000	21,930	158,194
Wisconsin	27,651	58,102	504,695	1,726	28,551	367,678
Wyoming	1,604	5,856	61,732	163	3,529	45,143
TOTAL	\$ 2,113,590	\$ 2,777,713	\$ 40,015,918	\$ 236,522	\$ 2,269,407	\$ 29,142,537

* Funding Year data as of 12/31/2014. Funding Year 2014: July 1, 2014 - June 30, 2015.

Note — Numbers may not add due to rounding.

¹ Authorized Support includes all funding approved for disbursement for calendar year 2014, including funding approved but not yet disbursed (due to the Red Light Rule). It does not include recoveries from audits, appeals, or other enforcement actions.

² Total Support includes all funding approved for disbursement and is reflective of recoveries from audits, appeals, or other enforcement actions, as of December 31, 2014.

Schools and Libraries Program

Commitments by Discount Band, Funding Year 2014* | (Unaudited - in thousands)

Discount Band	Telecom Services	Internet Access	Internal Connections	Basic Maintenance	Total	% of Total
20-29%	\$ 1,802	\$ 1,118			\$ 2,920	0.14%
30-39%	2,807	1,255			4,062	0.19%
40-49%	72,866	37,658			110,524	5.23%
50-59%	99,139	44,053	Internal Connections and Basic Maintenance were not funded in FY2014.		143,192	6.77%
60-69%	176,275	71,002			247,278	11.70%
70-79%	314,143	158,635			472,778	22.37%
80-89%	542,962	213,250			756,212	35.78%
90%	242,501	134,123			376,624	17.82%
TOTAL	\$ 1,452,496	\$ 661,094	\$ 0	\$ 0	\$ 2,113,590	100.00%

* Funding Year data as of 12/31/2014. Funding Year 2014: July 1, 2014 - June 30, 2015.
Note — Numbers may not add due to rounding.

Schools and Libraries Program

Commitments by Applicant Type, Funding Year 2014* | (Unaudited)

Applicant Type	Applications Funded	Commitments (in thousands)	% of Applications	% of Total
Consortium	927	\$ 240,429	2.53%	11.38%
Library	4,943	92,868	13.50%	4.39%
School	9,611	149,172	26.24%	7.06%
School District	21,133	1,608,845	57.70%	76.12%
Statewide	11	22,277	0.03%	1.05%
TOTAL	36,625	\$ 2,113,590	100.00%	100.00%

* Funding Year data as of 12/31/2014. Funding Year 2014: July 1, 2014 - June 30, 2015.
Note — Numbers may not add due to rounding.

Schools and Libraries Program

Rollover from Unused Funds, as of November 30, 2014 (Unaudited - in thousands)

	FY2009	FY2010	FY2011	FY2012	FY2013
Amount Authorized and Collected	\$ 2,250,000	\$ 2,270,250	\$ 2,290,680	\$ 2,338,790	\$ 2,380,310
Rollovers from Previous Funding Years	900,000	1,150,000	850,000	1,050,000	450,000
TOTAL FUNDS AVAILABLE	\$ 3,150,000	\$ 3,420,250	\$ 3,140,680	\$ 3,388,790	\$ 2,830,310

	FY2009	FY2010	FY2011	FY2012	FY2013
Amounts Rolled Over Into Subsequent Funding Years	\$ 650,000	\$ 290,000	\$ 0	\$ 0	\$ 0
Additional Amounts Available for Future Rollover	70,720	377,040	600,280	291,880	18,000
TOTAL AMOUNTS NOT USED	\$ 720,720	\$ 667,040	\$ 600,280	\$ 291,880	\$ 18,000

Note — There are several reasons why applicants may not use the full amount of their commitment. Applicants may overestimate the cost of the services requested, change the scope of a project after a commitment has been issued by USAC, or turnover leads to lack of staff expertise in filing requirements.

Universal Service Funding

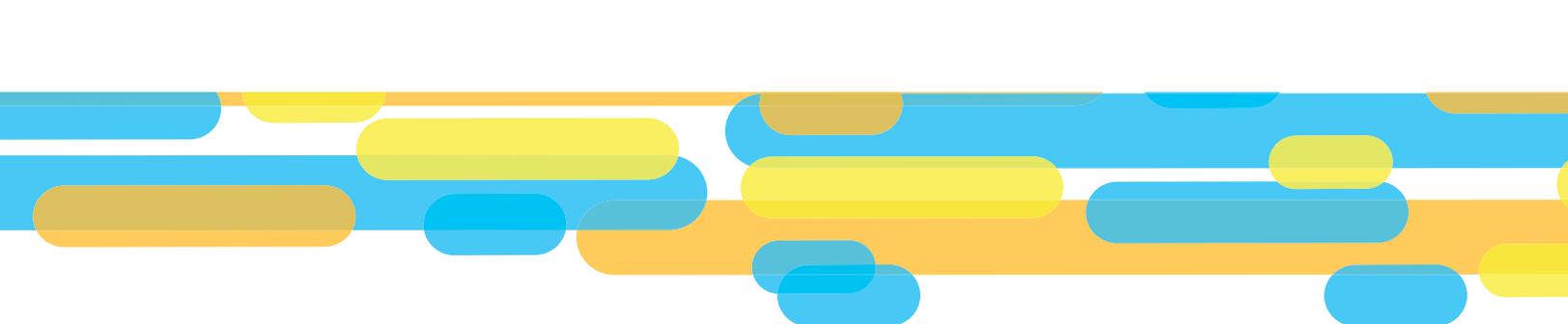
Authorized Support by Program, 2014 | (Unaudited - in thousands)

State	High Cost	Lifeline	Rural Health Care	Schools and Libraries	Authorized Support ¹ 2014	Total Support ² 1998-2014
Alabama	\$ 91,833	\$ 23,313	\$ 1,119	\$ 47,347	\$ 163,612	\$ 2,424,587
Alaska	185,428	13,014	62,286	52,387	313,115	3,260,496
American Samoa	2,817	28	347	1,132	4,324	69,468
Arizona	66,242	60,256	2,816	64,611	193,925	2,186,527
Arkansas	84,604	14,372	4,087	25,323	128,386	2,260,968
California	92,204	136,393	14,316	340,582	583,495	9,802,965
Colorado	68,019	11,253	2,845	21,731	103,848	1,559,401
Connecticut	464	13,112	22	18,611	32,209	463,631
Delaware	228	3,660	0	5,430	9,318	53,137
District of Columbia	0	4,936	0	8,387	13,323	165,239
Florida	63,408	104,706	185	81,541	249,840	2,962,293
Georgia	107,393	57,805	4,879	96,278	266,355	3,423,348
Guam	10,351	203	122	589	11,265	198,298
Hawaii	23,500	5,725	264	5,614	35,103	562,377
Idaho	42,862	2,189	463	7,537	53,051	944,090
Illinois	71,991	66,625	5,193	118,537	262,346	2,731,498
Indiana	80,775	26,066	2,722	47,715	157,278	1,545,245
Iowa	129,025	6,726	1,063	17,639	154,453	1,817,745
Kansas	150,702	8,976	734	19,576	179,988	2,822,455
Kentucky	121,082	27,510	2,351	36,560	187,503	1,990,949
Louisiana	84,581	32,622	821	50,403	168,427	2,837,470
Maine	23,783	6,441	6,720	8,305	45,249	751,310
Maryland	3,573	25,974	26	24,657	54,230	535,167
Massachusetts	2,212	32,562	135	32,689	67,598	811,623
Michigan	33,114	72,780	8,402	47,635	161,931	2,068,752
Minnesota	104,332	12,326	4,700	28,543	149,901	2,060,231
Mississippi	189,673	15,087	3,371	29,993	238,124	3,942,946
Missouri	101,477	22,457	1,891	30,470	156,295	2,205,336
Montana	91,035	1,849	5,129	5,425	103,438	1,346,722
Nebraska	74,258	1,211	1,496	10,937	87,902	1,292,115
Nevada	23,424	19,659	324	9,475	52,882	586,547
New Hampshire	9,287	2,160	62	3,499	15,008	209,405
New Jersey	942	27,902	0	64,758	93,602	1,012,731
New Mexico	72,301	16,815	3,102	26,058	118,276	1,642,909
New York	41,259	123,763	3,207	103,462	271,691	4,880,857
North Carolina	85,152	42,051	3,971	81,973	213,147	2,389,326
North Dakota	94,206	2,367	1,404	3,648	101,625	1,249,862
Northern Mariana Islands	1,265	241	12	723	2,241	52,757
Ohio	40,952	71,100	1,189	71,353	184,594	2,282,993
Oklahoma	128,992	127,225	6,377	60,066	322,660	3,683,080
Oregon	72,032	9,084	4,009	14,107	99,232	1,457,266
Pennsylvania	77,465	63,263	1,090	68,894	210,712	2,361,313
Puerto Rico	115,237	45,583	0	13,423	174,243	3,016,067
Rhode Island	30	6,384	0	7,200	13,614	176,023
South Carolina	101,207	33,171	1,461	39,291	175,130	2,120,724
South Dakota	74,633	868	1,097	6,906	83,504	1,179,315
Tennessee	68,310	40,191	1,510	38,671	148,682	1,885,824
Texas	225,143	78,711	8,474	218,274	530,602	7,787,683
Utah	24,231	5,263	1,447	18,837	49,778	599,537
Vermont	19,381	1,584	77	3,103	24,145	475,360
Virgin Islands	16,428	262	15	3,988	20,693	448,850
Virginia	80,039	21,725	2,419	35,788	139,971	1,743,356
Washington	69,165	23,898	334	35,715	129,112	1,977,867
West Virginia	44,128	8,498	1,736	21,930	76,292	1,285,856
Wisconsin	121,871	22,557	10,603	28,551	183,582	2,496,954
Wyoming	42,347	123	553	3,529	46,552	835,458
TOTAL	\$ 3,750,392	\$ 1,604,629	\$ 192,977	\$ 2,269,407	\$ 7,817,405	\$ 106,934,314

Note — Numbers may not add due to rounding.

¹ Authorized Support includes all funding approved for disbursement for the months of January-December 2014, including funding approved but not yet disbursed (due to the Red Light Rule). It does not include recoveries from audits, appeals, or other enforcement actions.

² Total Support includes all funding approved for disbursement and is reflective of recoveries from audits, appeals, or other enforcement actions, as of December 31, 2014.



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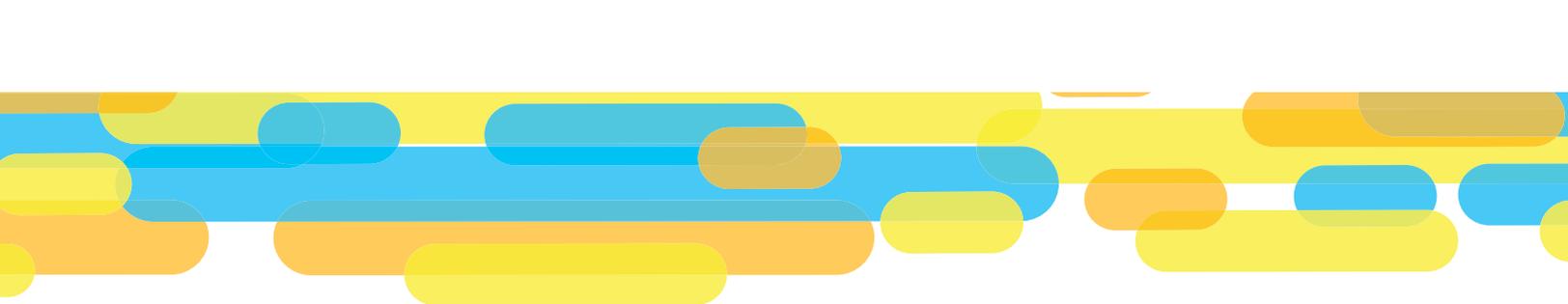
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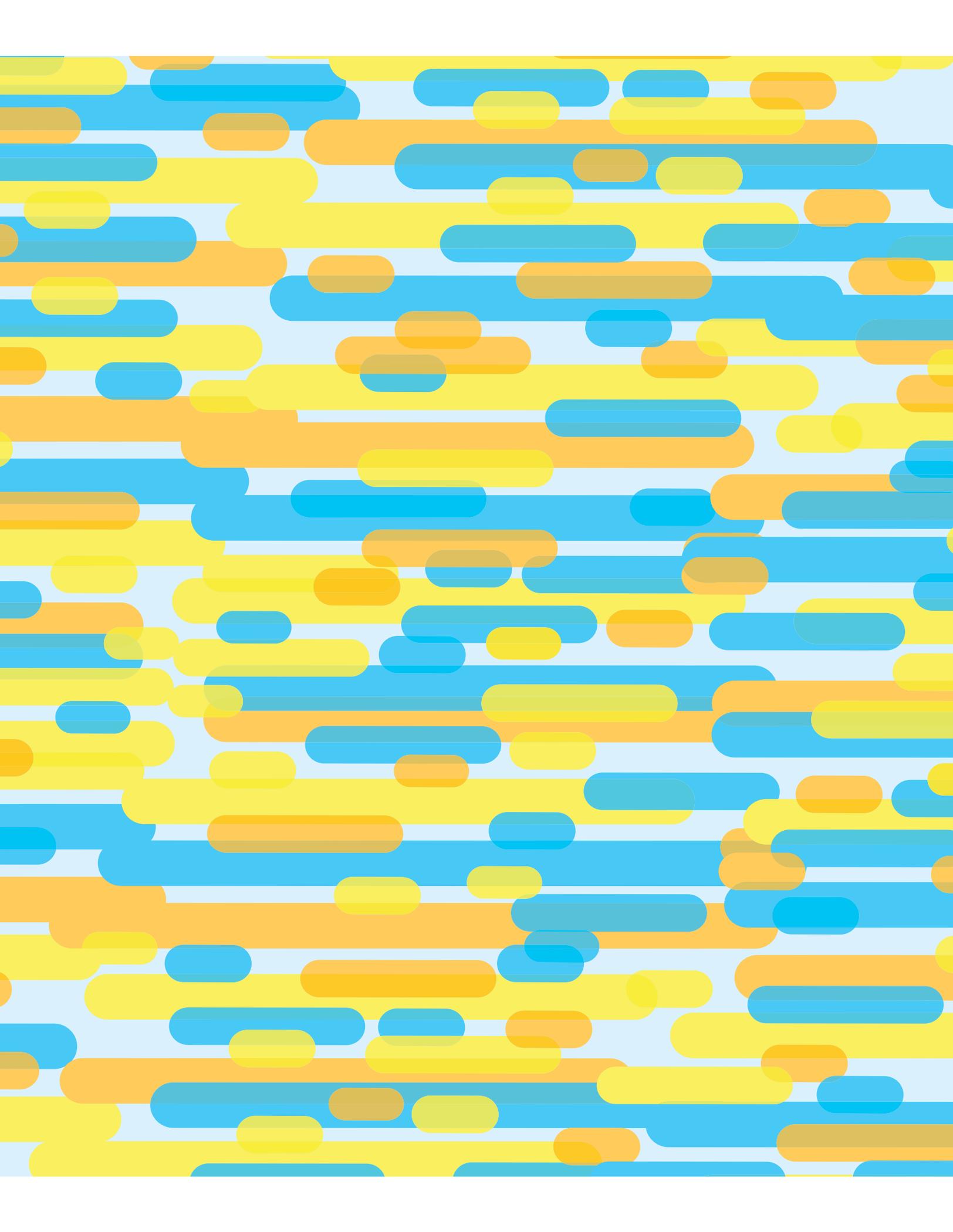
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