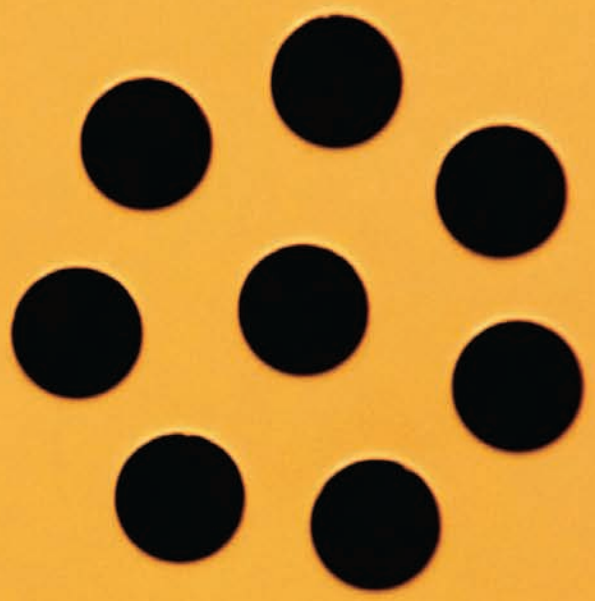
USAC administers the **Universal Service Fund**, providing communities all across America with affordable access to telecommunications services through the USF's four programs.

2008 annual report
(amended April 2009)

USAC
Universal Service Administrative Company



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the Universal Service Administrative Company (USAC) is an independent, not-for-profit corporation designated as the administrator of the federal Universal Service Fund (USF) by the Federal Communications Commission (FCC).

USAC administers the Universal Service Fund and the four Universal Service programs: High Cost, Low Income, Rural Health Care, and Schools and Libraries, which are dedicated to ensuring that all Americans receive the benefits of affordable and efficient access to telecommunications and information services. Working closely with the FCC and our stakeholders, USAC has helped make universal service possible.

In addition to billing, collecting, and disbursing all universal service funds, USAC conducts outreach and education activities for program stakeholders. Through rigorous internal controls and by performing audits of USAC, the four USF programs, beneficiaries, contributors, and services providers, USAC has been vigilant in protecting the USF from potential waste, fraud, and abuse.

While performing the administrative responsibilities entrusted to it, USAC works diligently with the FCC to ensure effective oversight of USAC, the USF, and the universal service programs. In 2008, USAC worked closely with the FCC to quickly and fully implement many new directives to increase efficiency, promote transparency, and facilitate oversight. You'll read about them in this report.

USAC administers the USF and manages its four programs—High Cost, Low Income, Rural Health Care, and Schools and Libraries—as required by the 1996 Telecommunications Act and regulations and orders issued by the FCC.

Letter from the Chairman and Acting CEO

USAC faced many challenges in 2008. Amid considerable activity on the universal service front and many changes to the four Universal Service Fund (USF) programs, USAC continued to operate with responsiveness and efficiency. USAC successfully implemented FCC policy and audit initiatives, made substantial operational changes in areas such as procurement and information technology, and enhanced its administrative procedures and internal controls. We are happy to report that USAC has commenced its second decade of service as the USF administrator with a year of significant accomplishment.

Dr. Brian L. Talbott, *Chairman of the Board*

In 2008, the FCC challenged USAC to make its operations more transparent, to be more accountable to USF stakeholders and the Commission itself, and to assess its performance and progress in delivering effective and efficient services in its role as USF administrator. In all instances, USAC quickly executed administrative actions designed to promote useful oversight and enhanced program operations. From retraining or hiring staff to reprogramming automated systems to responding to customers' needs to developing and implementing new procedures, USAC fulfilled its many and wide-ranging operational duties throughout the year.

Demonstrating accountability and further safeguarding the integrity of the USF underlay many of USAC's 2008 activities. USAC managed the fieldwork and data reporting required under the FCC Office of Inspector General (OIG) USF audit program that grew considerably from 2007 to 2008. USAC implemented a variety of administrative measures and outreach activities to detect, prevent, and reduce improper payments. USAC created a robust customer complaint intake and reporting system in a timely and effective manner. At FCC direction, USAC extended its range of reports on performance, began the process of reviewing its internal control regime, and introduced new checks and balances to its procurement operations. USAC performed these activities professionally and reliably, and within the timeframes established by the FCC.

In the USF program areas—High Cost, Low Income, Rural Health Care, and Schools and Libraries—and for contributors to the fund, USAC registered advances that benefited participants in many ways. USAC worked closely throughout the year on an individual basis with each participant in the Rural Health Care Pilot Program to align their plans and activities with program requirements. In the High Cost Program, USAC implemented numerous FCC orders, including an interim funding cap on competitive eligible telecommunications carriers. Schools and Libraries Program funding went out

letter *from the Chairman and Acting CEO*

the door in greater amounts on earlier dates than ever before. USAC processed 95% of requests for payment in that program in five days or less. USAC also made a bulk certification tool available for USF contributors so they could certify all of their filings at once instead of individually.

USAC continued to expand education and outreach activities for program beneficiaries. USAC is acutely aware of the competing demands for the attention of program participants, from the small, rural carriers with few resources to spare to the schools or libraries occupied with students and patrons to the health care providers devoted to caring for patients. In 2008, USAC launched a new series of workshops for High Cost and Low Income program participants around the country. USAC welcomed Rural Health Care Pilot Program participants to special training sessions in Washington, DC. And USAC enhanced its longstanding Schools and Libraries fall training program by devoting a third of the program to audits and offering simultaneous beginners and advanced program tracks. These sessions reached over 1,900 applicants, service providers, and other interested parties in nine sessions across the United States. For all audiences, USAC strives to ensure that education and outreach serve to address participants' real needs and to improve their experiences with USF programs.

D. Scott Barash, *Acting Chief Executive Officer*

2008: a year of great accomplishment

New initiatives required additional resources, but USAC's administrative costs remain lower than comparable organizations. For example, the expanded FCC Office of Inspector General USF audit program required USAC to add expenses for hiring audit firms, training auditors, and engaging quality control firms to ensure USAC delivered accurate data to the OIG on time. Added reporting and procurement requirements entailed adding staff. Even so, USAC's 2008 administrative expense rate of 2.4% of USF disbursements is significantly lower than the largest U.S. charitable organizations and foundations, as well as the overwhelming majority of federal agencies that provide grants, distribute subsidies, or manage entitlement programs.

Underlying USAC's accomplishments in 2008 were its continued flexibility and responsiveness to change while continuing to administer the USF and its programs efficiently and effectively. This is a tribute to USAC's dedicated staff and collegial Board of Directors. Our achievements in 2008 marked great progress, and USAC stands in a strong position to implement any new USF policy changes and bring ever-increasing improvements to its administration of the USF in 2009.

USAC's administrative expense rate of 2.4% of USF disbursements is significantly lower than the largest U.S. charitable organizations and foundations, as well as the overwhelming majority of federal agencies that make grants, distribute subsidies, or manage entitlement programs.

USAC administers the USF and the four universal service support programs it funds—High Cost, Low Income, Rural Health Care, and Schools and Libraries—as required by the 1996 Telecommunications Act and regulations and orders issued by the FCC. Consumers in remote or rural areas, low-income consumers, rural health care providers, and public and private schools and public libraries, are eligible to receive the benefit of these programs.

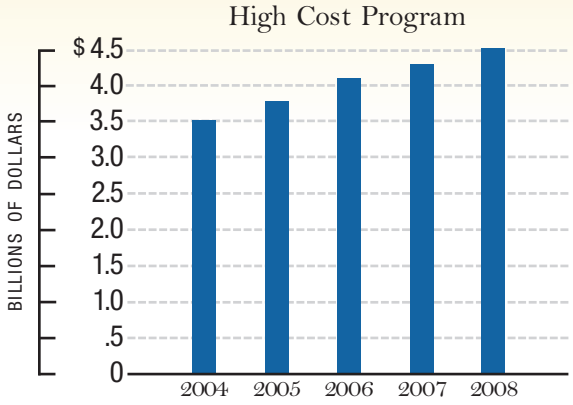


Chart represents unaudited disbursements by Calendar Year, as of December 31, 2008.

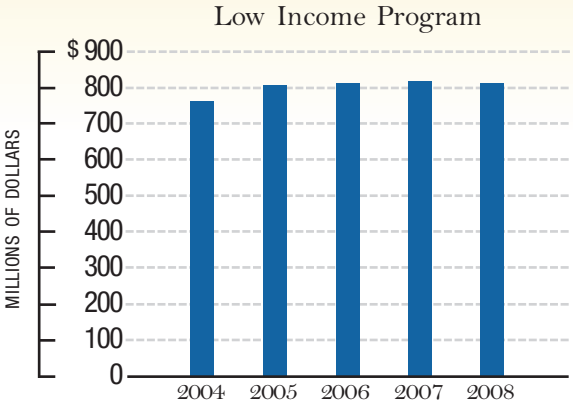
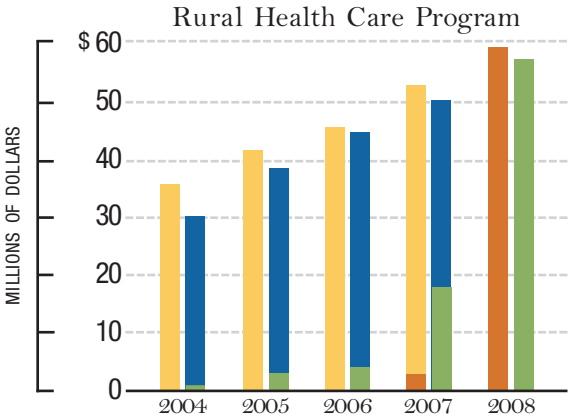
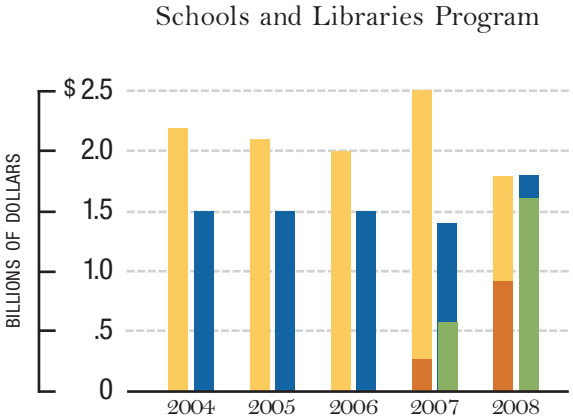


Chart represents unaudited disbursements by Calendar Year, as of December 31, 2008.



Unaudited commitments by Funding Year, as of December 31, 2008
Unaudited disbursements by Funding Year, as of December 31, 2008
Unaudited projected commitments (based on USAC historical data as of January 2009)
Unaudited projected disbursements (based on USAC historical data as of January 2009)



Unaudited commitments by Funding Year, as of December 31, 2008
Unaudited disbursements by Funding Year, as of December 31, 2008
Unaudited projected commitments (based on USAC historical data as of January 2009)
Unaudited projected disbursements (based on USAC historical data as of January 2009)

The **High Cost Program** ensures that consumers across the country have access to and pay rates for telecommunications services that are reasonably comparable to services provided and rates paid in urban areas.

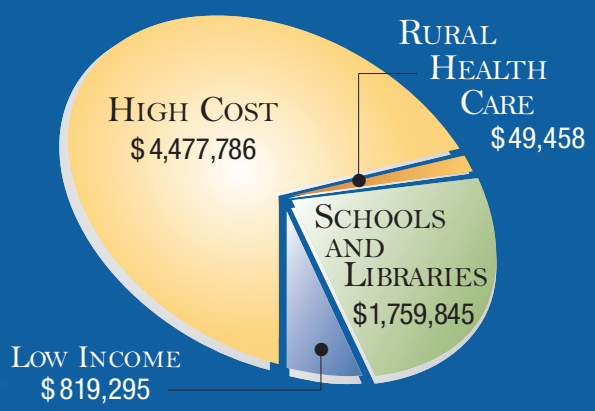
The **Low Income Program,** commonly known as Lifeline and Link Up, helps eligible low-income consumers establish and maintain telephone service by discounting services provided to them by local telephone companies.

The **Rural Health Care Program** provides reduced rates to rural health care providers for telecommunications and Internet services necessary for the provision of health care.

The **Schools and Libraries Program,** commonly known as E-rate, provides discounts to help schools and libraries in every U.S. state and territory receive affordable telecommunications and Internet access.

Calendar Year Approved Disbursements by Program As of December 31, 2008

(Unaudited · In Thousands)

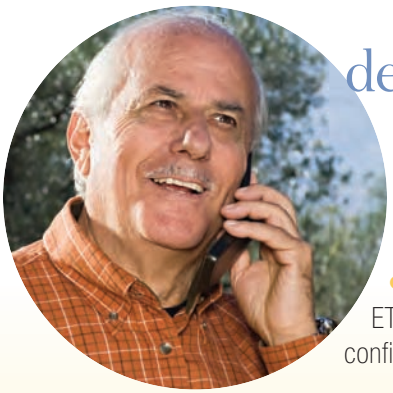


Total: $7,106,384

The Universal Service Fund is one fund with four programs, working to bring access to communications technology to millions of Americans. This access has made a real difference to people and the communities in which they live across this country.

The High Cost Program ensures that consumers across the country have access to and pay rates for telecommunications services that are reasonably comparable to services provided and rates paid in urban areas. In 2008, USAC staff quickly and effectively implemented new FCC rules while educating program participants.

- In the spring, the FCC mandated an interim cap on competitive eligible telecommunications carriers (ETCs), limiting annual USF support. USAC staff continues to work diligently to ensure a smooth transition to the new operating procedure.



demonstrating responsiveness

- The brand new Online Form 525 filing feature provides competitive ETCs with an easy-to-use interface, time efficiency, and the ability to confirm payment accuracy.

- In conjunction with the Low Income Program, USAC staff conducted four regional training sessions for ETCs in the areas of program rules, support payment calculation, and audit preparation. USAC also presented overviews of the company, the High Cost and Low Income programs, and specific guidance on certifcations and best practices. These well attended events were held between May and November in Washington, DC, Chicago, Denver, and Dallas.

at work:

In mountainous Alexandria, Minnesota, cellular towers are sometimes only accessible by foot, all-terrain vehicle, or helicopter. This makes providing services to customers in and around Alexandria costly. But a local wireless carrier has been able to upgrade towers and switching facilities with support received from the USF High Cost Program. Customers can enjoy landline-quality cellular service in the most remote regions of the area because USF support has made it possible for the provider to deploy newer technology with a greater reach that also requires less maintenance.

The USAC High Cost Program team is always working to help carriers serve consumers in remote areas, giving them access to important telecommunications services.

The Low Income Program helps eligible low-income consumers establish and maintain telephone service through discounted services. In 2008, the Low Income Program expanded its outreach to include a greater focus on program rules, guidelines, and best practices while continuing efforts to increase Lifeline participation.

- USAC worked closely with state utility commissions, health and human services agencies, and ETCs to devise state-specific strategies to increase program participation. USAC also exhibited at the AARP annual convention in Washington, D.C., attended the National Congress of American Indians Conference, and spoke at events attended by the telecommunications and social service communities in order to increase Lifeline participation.

- USAC identified states with estimated Lifeline participation rates that fell below 10%. Outreach to those states included web-based training sessions for ETCs.

creating a network

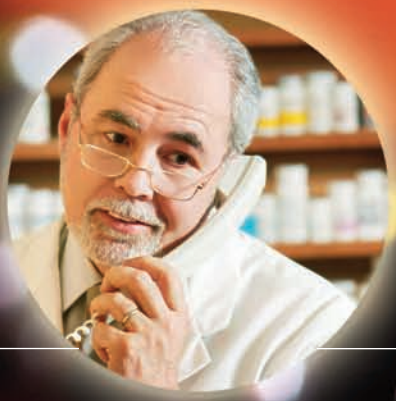
- The High Cost and Low Income Division conducted regional training. USAC presented overviews of the organization, the High Cost and Low Income programs, as well as specific guidance on certifications, best practices, and audits.

- USAC received a very favorable response from participants who also expressed interest in attending future USAC events. The High Cost and Low Income programs will continue to focus on education initiatives that promote compliance with FCC rules and regulations.

at work:

A discount of $10 a month may not seem like much to most people, but for the elderly in Pikeville, Tennessee, whose monthly average income is just $300 to $400, it means they are now able to call for help in an emergency. A local telephone carrier provides the critical link to basic telephone access and says it is only through the support of the USF Low Income Program that telephone service is possible for these customers.

The USAC Low Income Program team is continuously working to find ways to help carriers offer consumers critical services they would otherwise be unable to afford.



The Rural Health Care Program provides reduced rates to rural health care providers for telecommunications and Internet services necessary for the provision of health care. In 2008, USAC's Rural Health Care Program kicked off the FCC's $417 million Rural Health Care Pilot Program while simultaneously hitting record funding numbers and participation rates in the regular program.

- In mid-January, USAC created training materials, launched a website, and hosted two training sessions for the more than 60 statewide or regional broadband telehealth networks participating in the new Pilot Program.

launching a new program

- For Funding Year 2007, which ended June 30, 2008, the regular program reached new records: 3,564 FCC Form 465s, the form seeking funding; and 6,583 funding requests from 2,871 health care providers (HCPs).

- USAC increased its targeted e-mail outreach to HCPs in the spring of 2008 by sending due date reminders and individual HCP status e-mails. As a result, 79% of HCPs that filed initial forms followed through completing all forms—the highest percentage ever.

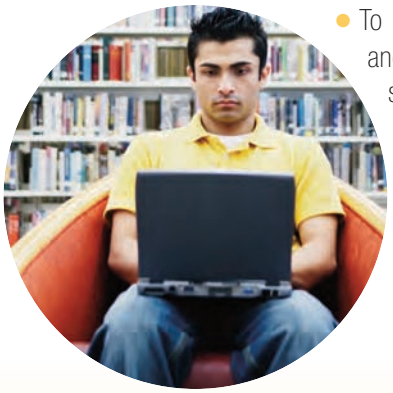
- USAC participated in conference panels, hosted vendor booths at industry trade shows, and conducted video conferences in a continuing effort to increase participation rates and teach program rules.

at work:

Support from the Rural Health Care Program has enabled a regional health center in Mt. Vernon, Illinois, to establish and install T1 data connections from the health center to its rural health care clinics across six counties. According to a representative, these connections allow the health center to transfer electronic medical records at its remote health care clinics, "every day, every hour, every minute."

The Rural Health Care Program offers ways to connect providers and patients, allowing people access to the health care they need, when they need it.

The Schools and Libraries Program provides discounts to help schools and libraries in every U.S. state and territory receive affordable telecommunications and Internet access. In 2008, the program achieved faster processing times and increased accuracy. In fact, USAC was faster in 2008 than in any previous year at issuing funding commitment decisions, sending out invoices, and distributing support payments.



- To ensure accuracy, USAC continued promoting online form submission and worked with the FCC and its Office of Inspector General to develop strategies to reduce waste, fraud, and abuse. It also made a concerted effort to teach applicants and service providers about audit procedures and program rules. As a result, the number of appeals for Funding Year 2007 reached an all-time low.

continuing successful outreach

- USAC conducted nine training sessions for approximately 1,600 stakeholders. The sessions covered program rules, in-depth presentations on audits, and a Beginner's Session that was highly attended by many newcomers to the program.

- The program conducted 228 "Helping Applicants to Succeed" (HATS) visits to applicants, which provided personal guidance through the application process.

- Approximately 25,000 program participants receive a weekly News Brief e-mail, which contains information on deadlines, program tips, and rules.

at work:

"I have worked in school districts for over twenty years, and this is the poorest community I have worked in," says a school district representative from Bridgeport, Connecticut. With support from the Schools and Libraries Program, a network infrastructure was built throughout Bridgeport's schools. Students can now take online practice tests for exams related to the No Child Left Behind Act and have access to supplemental reading materials. Recently, the district was a finalist for an annual prize awarded to an urban school district with the top overall performance and improvement in student achievement, including the performance of minority and poor students.

The Schools and Libraries Program team is dedicated to providing schools and libraries with funding for communications technology vital to success in the 21st Century.

This past year, USAC's Finance Division featured two significant accomplishments—adapting to a changing reporting environment and improving customer service to USF participants and contributors.

The division implemented an August 2007 FCC Order that established new fees for late-filing contributors. These complex calculations called on the Finance Division to make swift and significant changes to its billing and accounting systems, retrain the customer service team, and undertake a massive outreach program to teach contributors about the new requirements and fees.

In February 2008, new requirements set forth in a Memorandum of Understanding between USAC and the FCC also required the division to establish a formalized program to implement internal controls over USAC operations consistent with the requirements of the White House Office of Management and Budget. Key processes and procedures were defined and documented, and appropriate controls were identified and tested.

making change and improving service

Lastly, the rate of callers that dropped off due to wait times declined from 2.9% in 2006 to 2.2% in 2007, and down to 0.87% last year—much lower than the industry standard of 4%. This is working in part because Customer Service is answering calls in a more timely manner, and a new telephone directory posted to USAC's website helps customers get through to the right people for their questions—a feature that will continue into 2009.

USAC's Information Technology (IT) shop was very busy during 2008 upgrading technology infrastructure, improving online tools, implementing internal systems changes, and ensuring that USAC had adequate storage and backup facilities for its operations.

This year, USAC deployed its second collocation data center facility in northern Virginia, for more space needed to support the hosting of all four USF programs. In addition, this center provides a disaster recovery location for applications hosted in its first collocation site and provides a more robust IT environment for supporting the USF while lowering operating costs over time.

upgrading to new environments and better tools

IT also created a file repository for USAC's permanent documents using a document management system that complies with federal regulations for file storage and management. In addition, USAC migrated one of its most critical financial systems—the Disbursement Aggregation System—from outdated technologies to a stable technical environment that considerably reduced the risk of malfunctions that could affect the collection and distribution of USF support.

Other projects include helping USAC's IT vendors migrate the Rural Health Care Program and Schools and Libraries Program IT infrastructure and operations to a USAC data center in northern Virginia; automation of USF contributor billing late payment and late filing fees conforming to FCC rule changes in 2007; and bulk certification for contributor Form 499, which enables contributors to certify multiple forms in a single filing. Many companies now use the online system rather than sending in paper forms, which increases accuracy, reduces potential data entry errors by USAC staff, and decreases processing costs.

USAC's Internal Audit Division (IAD) implemented several new initiatives in 2008 to expand its education and outreach, to improve its efficiency in conducting program audits, and to increase its responsiveness for managing the large FCC Office of Inspector General (OIG) audit program that included nearly 700 audits of program beneficiaries and fund contributors.

USAC also participated in a number of association meetings to promote awareness of program rules, compliance requirements, and audit preparation activities. The presentations were used to educate potential audit recipients about audit expectations and requirements and to support USAC's efforts to reduce waste, fraud, and abuse in the USF.

implementing new procedures for increased efficiencies

IAD also took several steps to improve its audit tracking for large numbers of FCC OIG audits. IAD created a central data management tool to identify findings and their associated causes for the first time since the beginning of the audit program and used a data warehouse to store audit records. This resulted in the ability to link audit activity to targeted outreach conducted by the four USF programs.

The division also increased its training for the firms conducting the FCC OIG audits on USAC's behalf. For Round 3 of the audits in late 2008, the scope of audits was widened by the OIG, and USAC responded by retaining more USF-experienced firms and increasing their case load while limiting the case load of less experienced firms.

USAC held several training sessions at its offices for auditors on High Cost Program and Schools and Libraries Program rules. In addition, the training was designed to encourage contracted auditors to treat audit recipients in a fair and respectful manner based on feedback received from Round 2 audit recipients. Nearly 700 contracted auditors are performing field work for Round 3 audits.

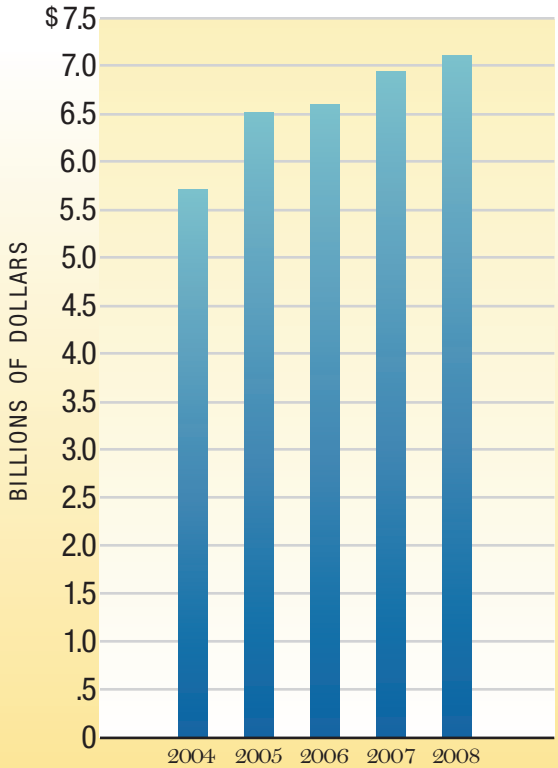
USAC Administrative Expenses

Calendar Year	Total Administrative Expenses	USAC Administrative Expenses	FCC Office of Inspector General USF Audit Expenses	Administrative Cost Percentage
2004	$ 67,349,000	$ 67,349,000	$ 0	**1.18%**
2005	$ 85,190,000	$ 85,190,000	$ 0	**1.31%**
2006	$ 88,588,000	$ 82,526,000	$ 6,062,000[2]	**1.34%**
2007	$ 104,684,000	$ 84,729,000	$ 19,955,000[2]	**1.51%**
2008	$ 170,389,000[1]	$ 90,012,000[1]	$ 80,377,000[2]	**2.40%**

Notes: 1-USAC administrative expenses based on unaudited financial statement in this annual report for 2008, and rounded to the nearest thousand.
2-FCC OIG USF audit expenses as reported in Board of Directors meetings, and rounded to the nearest thousand.

Overall Universal Service Fund (USF) Disbursements

(Unaudited)

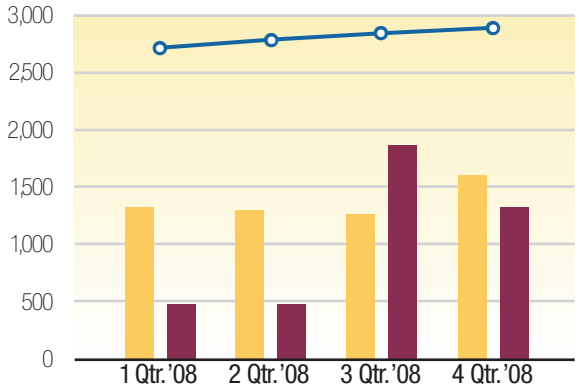


Calendar Year	Overall USF Support
2004	$ 5,729,559,000
2005	$ 6,520,066,000
2006	$ 6,626,333,000
2007	$ 6,954,836,000
2008	$ 7,106,384,000

Of the more than $7 billion overall Universal Service Fund disbursements made in 2008, USAC's administrative expenses accounted for 2.4%.

USAC is required to provide the FCC with data and performance information on a quarterly basis pursuant to a memorandum of understanding signed in September 2008. USAC submits performance information on its administration of the Universal Service Fund as well as the four USF programs.

USF Contributor Statistics

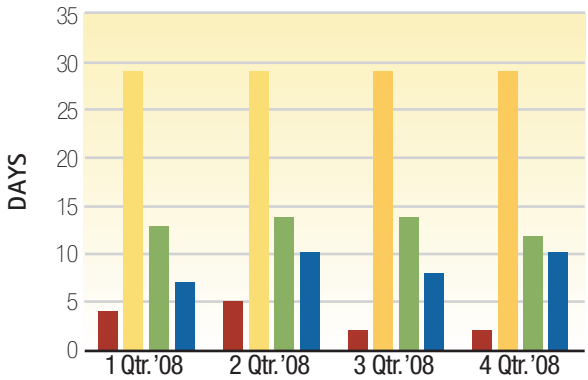


USF Contributors-*Number of unique FCC Form 499 filer identification numbers.*

Delinquent Contributors-*Number of unique filer identification numbers with a contribution receivable balance that is more than 90 days delinquent, is currently referred to the FCC for collection purposes, under a payment plan agreement, or in bankruptcy protection as of the quarter end.*

Contributors Assessed Late Fees or Penalties-*Number of unique filer identification numbers for whom a net late filing fee or late payment fee was assessed in the quarterly reporting period due to failure to meet required deadlines for filing the FCC Form 499 or paying the monthly USAC invoice by the due date.*

Average Time to Process Payments



High Cost-*Average number of calendar days between the last day a support request filed by a carrier is entered into USAC's payment system and the day that each disbursement is authorized during the quarterly reporting period.*

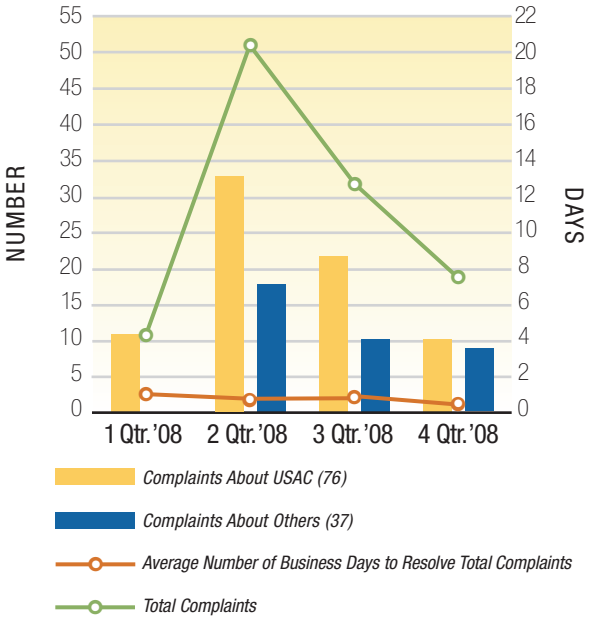
Low Income-*Average number of calendar days between the last day that support claims filed by carriers are entered into USAC's payment system and the day that each disbursement is authorized during the quarterly reporting period.*

Rural Health Care-*Average processing time in calendar days for all invoices (denied and approved) processed for Funding Years 2006-2007.*

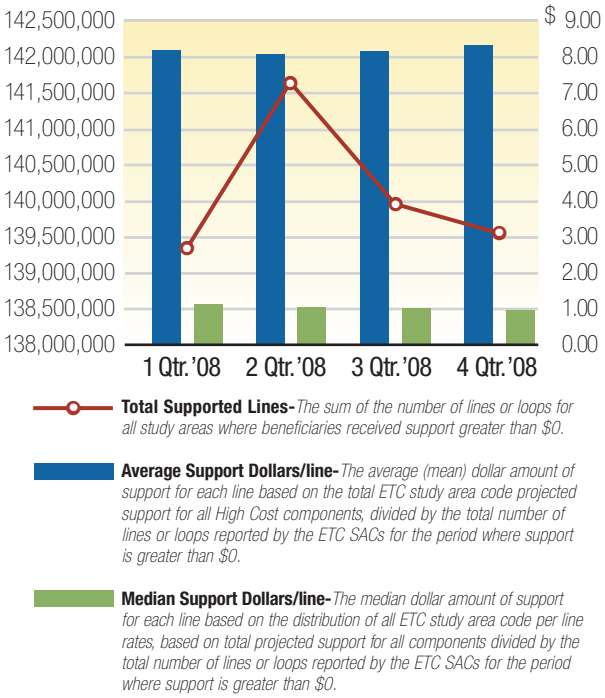
Schools & Libraries-*Average processing time in calendar days for all invoice line items (denied and approved) processed during the reporting period for Funding Years 2006-2008.*

performance measures

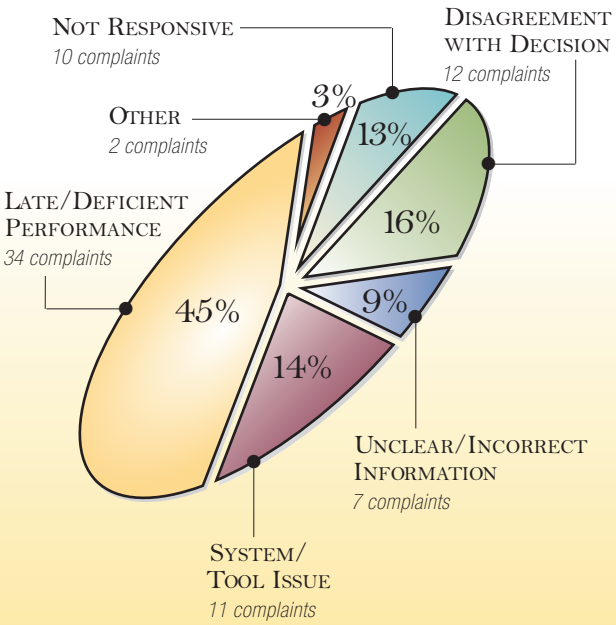
2008 USAC Complaint Statistics



High Cost Program Lines Supported with Average and Median Support Amounts

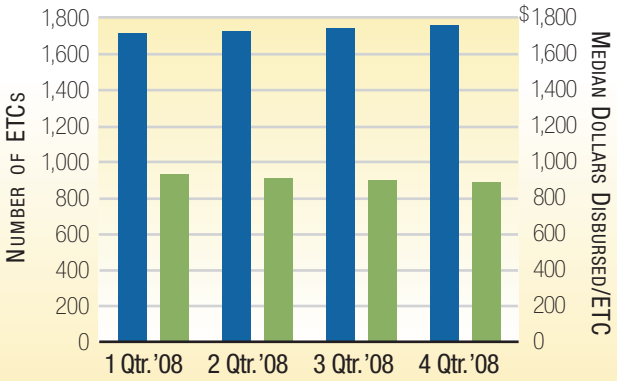


2008 USAC Complaints by Type

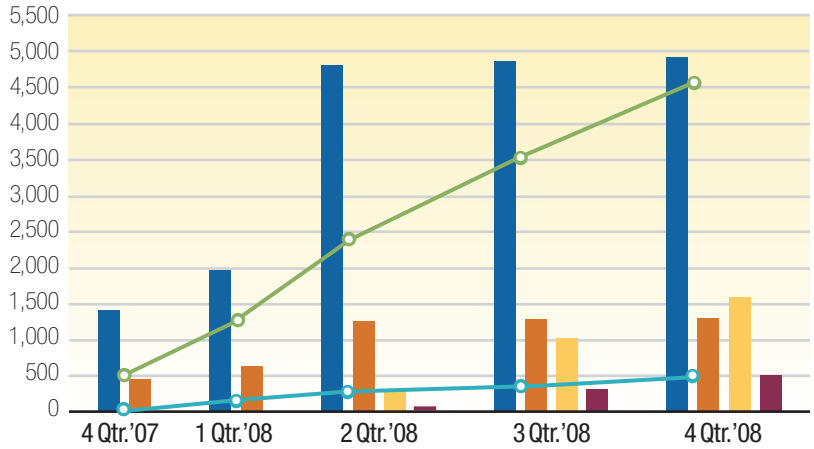


Total: *76 complaints about USAC*

Low Income Program Median Dollars Disbursed per ETC



Rural Health Care Applications by Type and Funding Year



FY '07 Telecom

FY '07 Internet

FY '07 Granted

FY '07 Rejected

FY '08 Telecom

FY '08 Internet

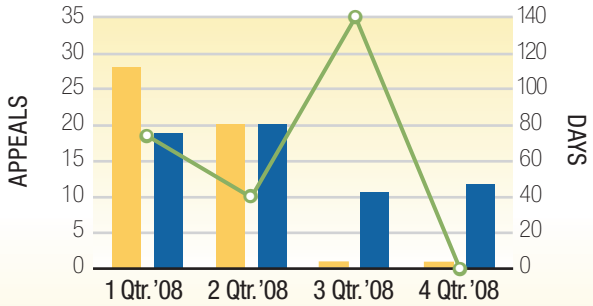
Telecom-*Cumulative count of FCC Form 466 applications received from applicants for telecommunications service for the current and immediate prior funding years.*

Internet-*Cumulative count of FCC Form 466-A applications received from applicants for Internet access service for the current and immediate prior funding years.*

Granted-*An application is counted as granted when a funding commitment letter with an amount greater than zero is issued.*

Rejected-*An application is counted as rejected if the funding commitment decision is denied.*

Rural Health Care Program Appeals Statistics

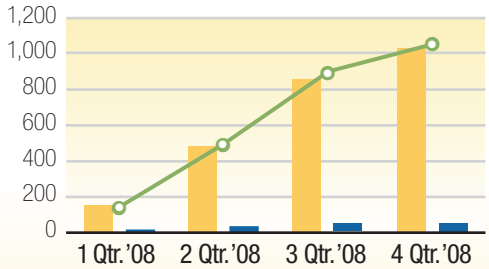


Current Appeals-*New appeals received from applicants for the reporting period for all funding years.*

Pending Appeals-*Appeals received in calendar year but not processed as of last day of the reporting period.*

Average Time to Resolve- *Average processing time in calendar days for appeals to be processed during the reporting period for all funding years.*

Rural Health Care Program Invoice Statistics (FY '07)



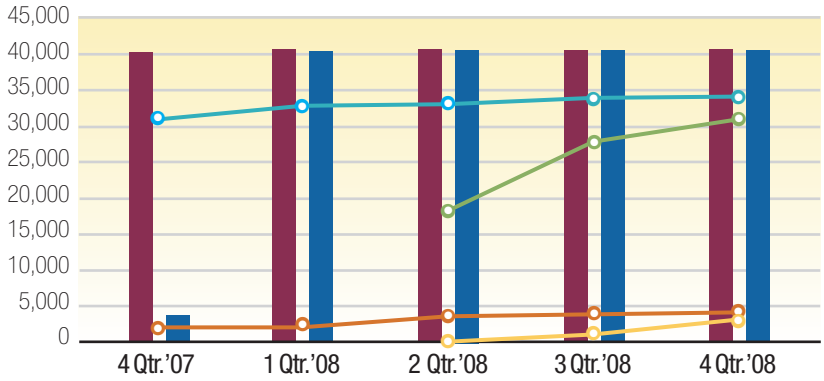
Invoices Received-*Cumulative count of invoices received for Funding Year 2007.*

Invoices Paid-*Cumulative count of invoices approved (positive dollar amount) for Funding Year 2007.*

Invoices Denied-*Cumulative count of invoices denied based on denial criteria for Funding Year 2007.*

performance measures

Schools & Libraries Applications Statistics



- **FY '07 Submitted**
- **FY '07 Granted**
- **FY '07 Rejected**
- **FY '08 Submitted**
- **FY '08 Granted**
- **FY '08 Rejected**

Submitted-*Cumulative count of FCC Form 471 applications submitted for specified funding year.*

Rejected-*Cumulative count of FCC Form 471 applications where all funding requests are denied for the current and immediate prior funding years.*

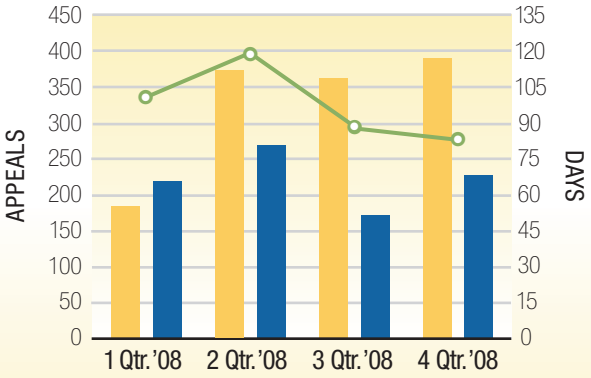
Granted-*Cumulative count of FCC Form 471 applications with at least one funding request funded (positive committed dollars) for the current and immediate prior funding years.*

Applications Submitted

Year	Cumulative Total Number
FY '07	40,960 applications
FY '08	40,652 applications

Note: As of December 31, 2008.

Schools & Libraries Program Appeals Statistics

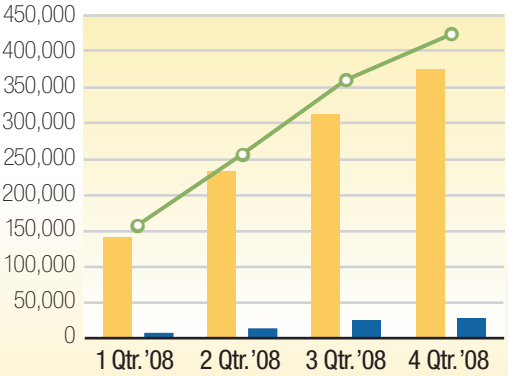


Current Appeals-*Number of appeals received during the quarter for all funding years.*

Pending Appeals-*Appeals for which an appeal decision letter has not been issued. Total excludes appeals that are on hold due to pending law enforcement investigation.*

Average Time to Resolve-*Average processing time in calendar days for appeals to be processed during the quarter for all funding years.*

Schools & Libraries Program Invoice Statistics (FY '07)



Invoices Received-*Cumulative count of invoices received for Funding Year 2007.*

Invoices Paid-*Cumulative count of invoice line items approved (positive or negative dollar amount) for Funding Year 2007.*

Invoices Denied-*Cumulative count of invoice line items denied (zero dollars approved) for Funding Year 2007. Number excludes invoice line items cancelled by service provider.*

The FCC, in two orders in CC Docket Nos. 96-45 and 97-21, released May 8, 1997 and November 20, 1998, respectively, determined that the Universal Service Administrative Company (USAC) should serve as the permanent administrator of the Universal Service Fund (USF) and the high cost, low income, rural health care, and schools and libraries universal service support programs, collectively referred to as the "Support Programs," established pursuant to Section 254 of the Communications Act of 1934, as amended. USAC was incorporated as an independent not-for-profit company in 1997. The USAC Board of Directors consists of independent directors representing a cross-section of telecommunications industry representatives who are stakeholders in the USF.

The USF and the Support Programs exist to achieve the goals of Section 254 by promoting the availability of quality services at just, reasonable, and affordable rates; increasing access to advanced telecommunications services throughout the nation; advancing the availability of such services to all consumers, including those in low-income, rural, insular, and high-cost areas at rates that are reasonably comparable to those charged in urban areas; and providing schools, health care providers, and libraries access to advanced telecommunications services.

The mission of USAC is to efficiently and effectively administer the USF and the Support Programs in accordance with FCC oversight by:

- Collecting and disbursing funds,
- Ensuring fund integrity and accountability, and
- Communicating with stakeholders.

USAC performs billing, collection, and disbursement functions for all of the Support Programs. USAC also collects information about contributing entities and end-user telecommunications revenues, and submits projections of demand, administrative expenses for the Support Programs, and quarterly universal service contribution data to the FCC.

The functions of USAC also include, but are not limited to: development of applications and associated instructions as needed for the Support Programs; administering the application process to ensure compliance with FCC rules and regulations; creating and maintaining a website and related operational infrastructure for such processes; performing outreach and public education functions; authorizing audits of telecommunications carriers, schools, libraries, and rural health care providers; and development and implementation of other functions unique to the Support Programs.

Funds collected by USAC from required contributors to the USF are restricted as to their intended use related to the Support Programs discussed above. Accordingly, such funds have been reflected as assets held for the Federal USF and liabilities related to assets held for the Federal USF in the accompanying statements of financial position. Available funds are maintained and invested by USAC. Unaudited financial data for 2008 have been presented for comparative and discussion purposes only.

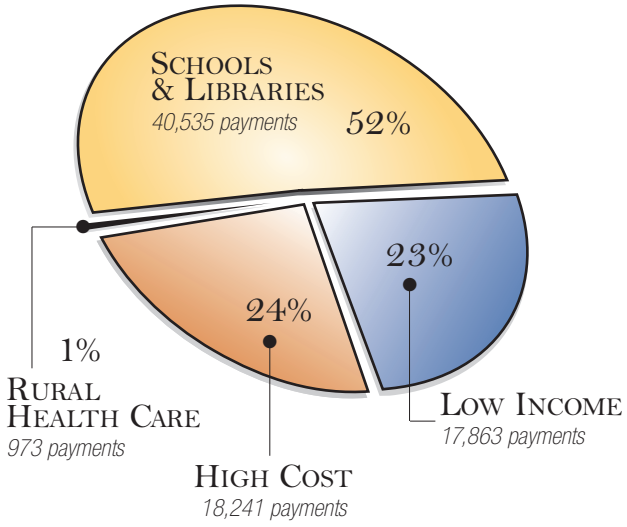
OVERVIEW OF FINANCIAL DATA

The accompanying unaudited financial statements and tables are the responsibility of USAC management and reflect all necessary adjustments and reclassifications needed for fair presentation of the period presented. The results for the year ended December 31, 2008 are not considered to be final until the 2008 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, 2007 and 2006 included herein.

Expenditures by the USF have continued to grow. In continuing to serve its mission, USAC has been growing as a company. Over the past three years, USAC increased its staff size to meet the increasing demands of administering the USF and the Support Programs. For the years ended December 31, 2006 and 2007, USAC employed a total of 164 and 196 employees, respectively, for an increase of 20%. At December 31, 2008, employees totaled 194, for a decrease of 1% over 2007. The overall staffing increase over the past

2008 USF Payments by Type

(Unaudited)



Total: *77,612 payments*

three years is due, in large part, to expanded audit and Information Technology (IT) initiatives; the expansion of the external relations team to coordinate education and communication efforts across the programs; and the addition of an experienced purchasing manager to centralize and coordinate USAC's procurement activities, thereby making significant improvements to the procurement process.

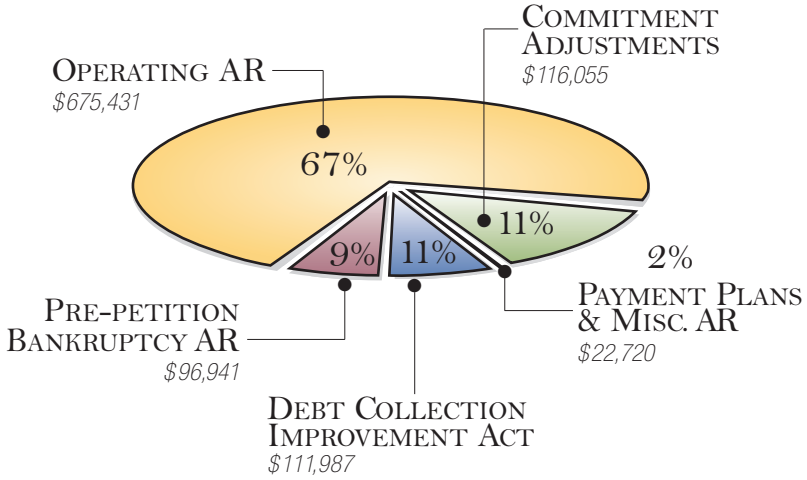
Accordingly, personnel costs have increased over the past three years as well. For the years ended December 31, 2006 and 2007, personnel costs were $15,893,000 and $18,017,000, respectively, representing an increase of 13%. For the year ended December 31, 2008, projected personnel costs are approximately $20,115,000, for an increase over 2007 spending of $2,098,000, or 12%. Personnel costs include wages, employee benefits, and corporate payroll tax liabilities.

Overall general and administrative expenses increased from $24,450,000 at December 31, 2006, to approximately $36,624,000 at December 31, 2007, for an increase of $12,174,000, or 50%. At December 31, 2008, projected general and administrative expenses are estimated to be $99,070,000, for an increase over 2007 spending of $62,446,000, or 171%. The increase from 2007 to 2008 is predominantly due to costs associated with implementing a large-scale USF audit program as directed by the FCC Office of Inspector General.

Lastly, Support Program contractual expenses have seen a modest increase over the past three years. For the years ending December 31, 2006 and 2007, Support Program contractual expenses were $46,659,000 and $47,468,000, respectively, for an increase of $809,000, or 1.7%. During 2008, Support Program contractual expenses increased to an estimated $48,507,000, for an increase of $1,309,000, or 2.2%.

2008 Accounts Receivable by Receivable Type

(Unaudited · in thousands)

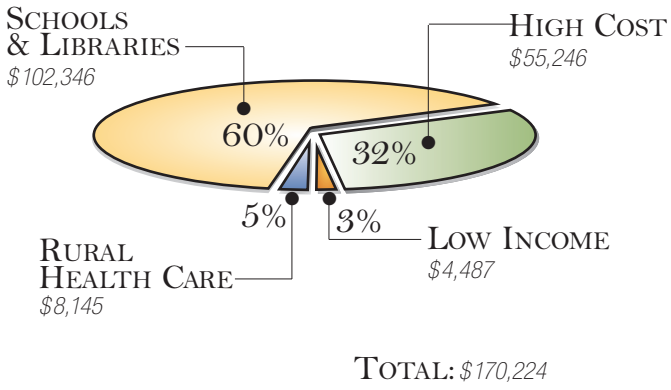


Total: *$1,023,133*

At December 31, 2008, Accounts Receivable accounted for 16.2% of total assets, down from 17.3% at December 31, 2007. The balance in Accounts Receivable of $1,023,133 is a 3.7% increase over the December 31, 2007 Accounts Receivable balance of $987,091. The chart above represents the different components of Accounts Receivable at December 31, 2008.

2008 Use of Administrative Resources by Support Programs

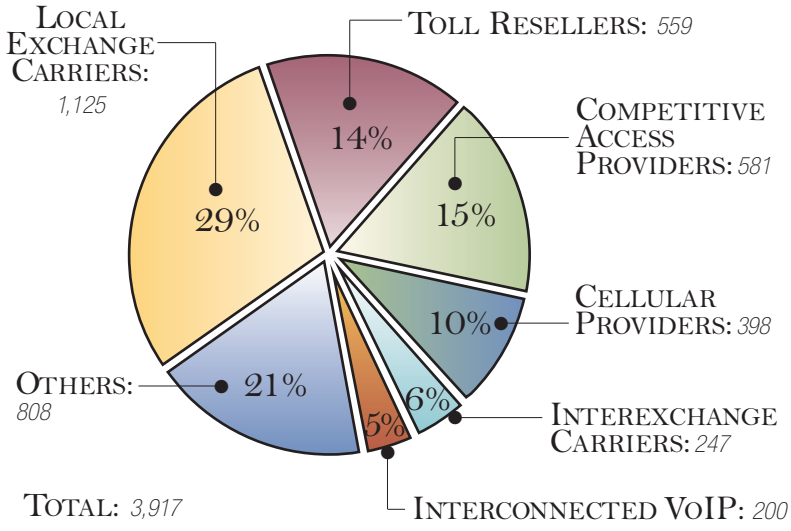
(Unaudited · in thousands)



The chart above displays the use of all administrative resources for 2008 in terms of support program usage. These figures represent a 9% decrease in the administrative resources used by the Schools and Libraries Program, and a 13% increase in administrative resources used by the High Cost Program over 2007. Percentages of administrative costs used by the Low Income and Rural Health Care Programs remained relatively unchanged from 2007.

2008 Average Monthly Invoices by Primary Carrier Type

(Unaudited)



Contributions 2008 Year in Review—In 2008, the USAC Finance Billing Team processed 100% of the approximately 47,000 contributor invoices on time. The chart above depicts the approximate 2008 breakdown of monthly invoices by carrier type.

Support Program contractual expenses include direct program administration fees and contract changes to those administration fees.

The overall purpose of the increased staffing and ancillary costs noted above is to ensure that USAC is able to continually improve its efficiency and effectiveness as administrator of the USF and the Support Programs. In 2008, USAC's efforts demonstrated its financial reliability and integrity and helped to establish USAC as a partner with the FCC to provide accurate, timely, and reliable financial data related to USAC, the USF, and the Support Programs.

Statement of Financial Position of USAC as of December 31, 2008

(unaudited · in thousands)

		2008
ASSETS		
Current Assets:		
Cash	$	15,423
Prepaid expenses and other current assets		171
Assets held for the Federal USF		6,325,334
Total current assets		6,340,928
FIXED ASSETS, less accumulated depreciation and amortization of $8,041		13,674
OTHER ASSETS		120
TOTAL	$	6,354,722
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	$	21,640
Payable to the Federal USF		7,748
Liabilities related to assets held for the Federal USF		6,325,334
Total current liabilities		6,354,722
NET ASSETS		—
TOTAL	$	6,354,722

See notes to financial statements.

Statement of Operations and Change in Unrestricted Net Assets of USAC for the Year Ended December 31, 2008

(unaudited · in thousands)

		2008
REVENUE:		
Primarily contract revenue	$	170,389
OPERATING EXPENSES:		
Contractual expenses (Notes 1 and 7)		48,507
Personnel and related expenses		20,115
General and administrative		99,070
Depreciation and amortization		2,697
Total operating expenses		170,389
CHANGE IN NET ASSETS		—
NET ASSETS—Beginning of year		—
NET ASSETS—End of year	$	—

See notes to financial statements.

Statement of Cash Flows of USAC for the Year Ended December 31, 2008

(unaudited · in thousands)

	2008
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from the Federal USF and other vendors	$ 172,140
Cash paid for operating expenses and employees	(152,043)
Interest received	80
Net cash (used in) provided by operating activities	$ 20,177
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures	(9,441)
INCREASE IN CASH AND CASH EQUIVALENTS	10,736
CASH AND CASH EQUIVALENTS—Beginning of year	4,687
CASH AND CASH EQUIVALENTS—End of year	$ 15,423
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:	
Change in net assets	$ —
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:	
Depreciation and amortization	2,683
Loss on retirement of fixed assets	14
Changes in operating assets and liabilities:	
Increase in prepaid expenses and current assets	(20)
Decrease in other assets	2
Increase in assets held for the Federal USF	(599,405)
Increase in payable to the Federal USF	1,849
Increase in accounts payable and accrued expenses	15,649
Increase in liabilities related to assets held for the Federal USF	599,405
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 20,177

See notes to financial statements.

Combining Supplemental Schedule of Assets and Liabilities Applicable to the Federal USF as of December 31, 2008

(unaudited · in thousands)

ASSETS:	Schools & Libraries	High Cost	Low Income	Rural Health Care	Total USF
Cash and cash equivalents	$ (756,002)	$ 385,251	$ 156,637	$ 267,524	$ 53,410
Investments	5,524,643	—	—	—	5,524,643
Receivables	384,093	531,009	91,951	16,079	1,023,132
Allowance for doubtful accounts	(143,185)	(112,884)	(21,010)	(2,381)	(279,460)
Other assets	—	—	—	—	—
Interest receivable	3,619	(59)	321	(272)	3,609
Assets held for the Federal USF	5,013,168	803,317	227,899	280,950	6,325,334
Receivable from USAC	(14,915)	22,997	4,286	(2,768)	9,600
TOTAL	$ 4,998,253	$ 826,314	$ 232,185	$ 278,182	$ 6,334,934
LIABILITIES:					
Payable to service providers	$ 26,598	$ 10,530	$ 4,226	$ 4	$ 41,358
Payable to contributors	2,625	5,326	952	249	9,152
Disbursements in transit	—	—	—	—	—
Accrued liabilities	—	421,047	67,168	—	488,215
Unearned revenue	2	4	1	—	7
TOTAL	$ 29,225	$ 436,907	$ 72,347	$ 253	$ 538,732

Note—This schedule reflects the assets and liabilities of the Federal USF at December 31, 2008 for each of the support programs.

Combining Supplemental Schedule of Changes in Net Assets Applicable to the Federal USF for the Year Ended December 31, 2008

(unaudited · in thousands)

ADDITIONS:	Schools & Libraries	High Cost	Low Income	Rural Health Care	Total USF
Amounts billed to contributors	$ 2,195,624	$ 4,526,919	$ 832,775	$ 188,747	$ 7,744,065
Interest income	107,778	10,006	4,032	4,748	126,564
Total additions	2,303,402	4,536,925	836,807	193,495	7,870,629
DEDUCTIONS:					
Amount paid and due to service providers	1,753,683	4,504,979	819,510	48,811	7,126,983
Allowance for doubtful accounts	5,277	(2,269)	(1,907)	225	1,326
Operating expenses	113,868	46,925	1,243	6,280	168,316
Unrealized/realized gain or loss	(16,489)	—	—	—	(16,489)
Non-expenditure financing (FCC transfer)	6,198	12,612	2,294	376	21,480
Total deductions	1,862,537	4,562,247	821,140	55,692	7,301,616
CHANGES IN NET ASSETS	$ 440,865	$ (25,322)	$ 15,667	$ 137,803	$ 569,013

Note—This schedule reflects the changes in net assets of the Federal USF for the year ended December 31, 2008 for each of the support programs.

Combining Supplemental Schedule of Cash Flows Applicable to the Federal USF for the Year Ended December 31, 2008

(unaudited · in thousands)

	Schools & Libraries	High Cost	Low Income	Rural Health Care	Total USF
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from contributors	$ 2,167,590	$ 4,516,636	$ 841,571	$ 182,240	$ 7,708,037
Interest received	135,030	10,345	4,171	4,922	154,468
Cash paid to service providers	(1,754,670)	(4,463,680)	(819,627)	(48,925)	(7,086,902)
Cash paid for administrative costs	(117,271)	(45,899)	(1,846)	(7,001)	(172,017)
Non-expenditure financing (FCC transfer)	(6,198)	(12,612)	(2,294)	(376)	(21,480)
Net cash provided by (used in) operating activities	$ 424,481	$ 4,790	$ 21,975	$ 130,860	$ 582,106
CASH FLOWS FROM INVESTING ACTIVITIES:					
Redemption of investments	11,016,274	—	—	—	11,016,274
Purchase of investments	(11,632,241)	—	—	—	(11,632,241)
Net cash used in investing activities	(615,967)	—	—	—	(615,967)
INCREASE (DECREASE) IN CASH EQUIVALENTS	(191,486)	4,790	21,975	130,860	(33,861)
CASH AND CASH EQUIVALENTS: Beginning of year	(560,288)	428,066	85,678	133,815	87,271
End of year	$ (751,774)	$ 432,856	$ 107,653	$ 264,675	$ 53,410
RECONCILIATION OF CHANGES IN NET ASSETS PROVIDED BY (USED IN) CASH FROM OPERATING ACTIVITIES:					
Changes in net assets	$ 440,865	$ (25,322)	$ 15,667	$ 137,803	$ 569,013
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:					
Bad debt expense	5,348	(2,283)	(1,906)	165	1,324
Amortized discount	23,490	—	—	—	23,490
Unrealized/realized gain or loss	(16,489)	—	—	—	(16,489)
Changes in operating assets and liabilities:					
Decrease (increase) in interest receivable	3,762	339	139	174	4,414
Decrease (increase) in accounts receivable	(28,105)	(10,269)	8,795	(6,447)	(36,026)
Decrease (increase) in receivable from USAC	(3,403)	1,026	(603)	(721)	(3,701)
Decrease (increase) in other assets	—	—	—	—	—
Increase (decrease) in liabilities	(987)	41,299	(117)	(114)	40,081
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 424,481	$ 4,790	$ 21,975	$ 130,860	$ 582,106

Note—This schedule reflects the cash flows of the Federal USF for the year ended December 31, 2008 for each of the support programs.

PRICEWATERHOUSECOOPERS

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of Universal Service Administrative Company:

In our opinion, the accompanying statements of financial position and the related statements of operations and change in unrestricted net assets and of cash flows present fairly, in all material respects, the financial position of Universal Service Administrative Company (the "Company") as of December 31, 2007, and the change in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of the Company as of December 31, 2006 and for the year then ended were audited by other auditors whose report dated June 25, 2007 expressed an unqualified opinion on those statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2008 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, contracts and grant agreements and other matters for the year ended December 31, 2007. 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken 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 basic financial statements. These schedules are the responsibility of the Company's management. Such schedules have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on them.

April 14, 2008

Statements of Financial Position
As of December 31, 2007 and 2006
(in thousands)

ASSETS	2007	2006
CURRENT ASSETS:		
Cash	$ 4,687	$ 6,267
Prepaid expenses and other current assets	151	60
Assets held for the Federal USF	5,725,929	5,325,789
Total current assets	5,730,767	5,332,116
FIXED ASSETS, less accumulated depreciation and amortization of $5,437 and $5,354	6,930	4,206
OTHER ASSETS	122	122
TOTAL	$ 5,737,819	$ 5,336,444
LIABILITIES AND UNRESTRICTED NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 5,991	$ 4,698
Payable to the Federal USF	5,899	5,957
Liabilities related to assets held for the Federal USF	5,725,929	5,325,789
Total current liabilities	5,737,819	5,336,444
NET ASSETS	—	—
TOTAL	$ 5,737,819	$ 5,336,444

See notes to financial statements.

Statements of Operations and Change in Unrestricted Net Assets
For the Years Ended December 31, 2007 and 2006
(in thousands)

	2007	2006
REVENUE, primarily contract revenue	$ 104,684	$ 88,588
OPERATING EXPENSES:		
Contractual expenses (Notes 1 and 7)	47,468	46,659
Personnel and related expenses	18,017	15,893
General and administrative	36,624	24,450
Depreciation, amortization and loss on retirements	2,575	1,586
Total operating expenses	104,684	88,588
CHANGE IN NET ASSETS	—	—
NET ASSETS—Beginning of year	—	—
NET ASSETS—End of year	$ —	$ —

See notes to financial statements.

Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006
(in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from the Federal USF and other vendors	$ 104,199	$ 79,808
Cash paid for operating expenses and employees	(100,816)	(85,055)
Interest received	336	429
Net cash (used in) provided by operating activities	3,719	(4,818)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(5,299)	(1,802)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,580)	(6,620)
CASH AND CASH EQUIVALENTS, Beginning of year	6,267	12,887
CASH AND CASH EQUIVALENTS, End of year	$ 4,687	$ 6,267
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	$ —	$ —
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,190	1,473
Loss on retirement of fixed assets	385	113
Changes in operating assets and liabilities:		
Decrease (increase) in prepaid expenses and current assets	(91)	209
Decrease in other assets	—	20
Increase in assets held for the Federal USF	(400,140)	(811,412)
Decrease (increase) in payable to the Federal USF	(58)	(8,580)
Increase in accounts payable and accrued expenses	1,293	1,947
Increase in liabilities related to assets held for the Federal USF	400,140	811,412
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$ 3,719	$ (4,818)

See notes to financial statements.

Notes to Financial Statements
As of and for the Years Ended December 31, 2007 and 2006

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 service support mechanisms.

The accompanying financial statements have been prepared on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America. USAC follows the accounting and reporting requirements as set forth in the American Institute of Certified Public Accountants' ("AICPA") *Audit and Accounting Guide for Not-for-Profit Organizations*.

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, Low Income, 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 for the USF and the Programs. 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 to ensure compliance with FCC rules and related operational infrastructure for such processes, creating and maintaining a Web site, performing outreach and public education functions, authorizing audits of telecommunication carriers, schools, libraries, and rural health care providers, and development and implementation of other functions unique to the Programs.

NECA 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. NECA Services, Inc. ("NECA Services") performs services for the Schools and Libraries and Rural Health Care Support Programs. Effective November 14, 2005, the name of NECA Services was changed to Solix, Inc. ("Solix"). For the years ended December 31, 2007 and 2006, the expense recognized for services rendered by NECA were $539,550 and $570,000, respectively, and for the same periods, the expense recognized for services rendered by Solix were $43.9 million and $41.4 million, respectively. These expenses are included in the contractual expenses in the accompanying Statements of Operations. At December 31, 2007 and 2006, there were no amounts due to Solix related to these services.

Funds collected from contributors to the USF by USAC are restricted as to their intended use related to the Programs discussed above. 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 in accordance with Statement of Financial Accounting Standards ("SFAS") No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* ("SFAS No. 136"). In accordance with SFAS No. 136, 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.

2. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for consistently measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for the Company beginning January 1, 2008. USAC has determined that its current disclosures and processes are in compliance with SFAS No. 157.

3. 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 furniture, equipment, leasehold

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improvements, and software and are carried at cost, net of accumulated depreciation. Depreciation of furniture and equipment is calculated on a straight-line basis over the five- to seven-year estimated useful 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. Amortization of software is calculated on a straight-line basis over the three-year estimated useful lives of those assets. Maintenance and repairs are expensed to operations as incurred.

Impairment of Long-Lived Assets- The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may no longer be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset were less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

Payable to the Federal USF- Payable to the Federal USF presented in the Company's Statements of Financial Position consists of amounts provided to USAC by the USF for USAC operations and held in USAC cash in excess of accounts payable and accrued expenses.

Contract Revenue- USAC, as the administrator of the USF, recognizes contract revenue when services are rendered. Contract 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 the other FCC fund administrators to USAC. These transactions are considered exchange transactions in accordance with the AICPA *Audit and Accounting Guide for Not-for-Profit Organizations*. The other FCC fund administrators include Telecommunications Relay Services ("TRS"), North American Numbering Plan ("NANP"), and Local Number Portability ("LNP"). 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-credit quality institutions and limits the amount of credit exposure from any one institution. 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 the federally insured amount of $100,000 and are fully covered by a collateralization program through the Federal Reserve Bank. USAC has not experienced any losses on its cash and cash equivalents. USAC also has invested USF excess cash in tax-exempt securities that are classified under Assets held for the Federal USF.

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.

4. FIXED ASSETS

Fixed Assets as of December 31, 2007 and 2006 are as follows:

	DECEMBER 31	
	2007	**2006**
	(in thousands)	
FIXED ASSETS:		
Office furniture	$ 1,913	$ 2,142
Office equipment	451	340
Computer hardware	2,381	1,974
Computer software	4,991	4,402
Software development	—	144
Leasehold improvements	558	558
Projects in progress	2,073	—
Total Fixed Assets	12,367	9,560
Less accumulated depreciation and amortization	(5,437)	(5,354)
NET FIXED ASSETS	$ 6,930	$ 4,206

Depreciation and amortization expense was $2,575,228 and $1,586,732 for the years ended December 31, 2007 and 2006, respectively.

Notes to Financial Statements
As of and for the Years Ended December 31, 2007 and 2006

SUMMARY OF ASSETS APPLICABLE TO THE FEDERAL USF	DECEMBER 31 2007	2006
	(in thousands)	
Cash and cash equivalents	$ 87,271	$ 59,617
Investments	4,921,665	4,538,319
Receivables	987,106	830,941
Allowance for doubtful accounts	(278,136)	(246,563)
Interest receivable	8,023	13,475
Other assets—securities pending settlement	—	130,000
TOTAL ASSETS HELD FOR THE FEDERAL USF	$ 5,725,929	$ 5,325,789

5. ASSETS AND LIABILITIES RELATED TO ASSETS HELD FOR THE FEDERAL USF *(see chart, above)*

In connection with USAC's administration of the Programs, USAC collects monies from and makes disbursements to telecommunications and service providers, as required by FCC rules, orders, and directives. 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 above provides additional detail with respect to these amounts (in thousands).

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 SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, a not-for-profit organization reports investments in debt and equity securities at fair market value. At December 31, 2007, there were $4.92 billion in short-term investments. There were $4.38 billion in short-term investments at December 31, 2006.

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 SFAS No. 124. Long-term investments consist primarily of United States Treasury debt securities with readily determinable fair values. At December 31, 2007 and 2006, the USF had $0 and $158 million of 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 FCC 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 FCC remain as USF receivables. All receipts of DCIA transferred receivables are the property of the USF and, if collected, are transferred to the USF by the FCC.

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 identified bankruptcies, identified inactive contributors, delinquent amounts that are referred to the FCC for enforcement, and other items. Management periodically reviews such estimates and management's assessment of recoverability may change based on actual results.

6. INCOME TAXES

USAC is a corporation organized for not-for-profit purposes. It is subject to income taxes however, income taxes for 2007 and 2006 are not material and are included as a component of administrative costs. USAC files a consolidated tax return with its parent NECA.

Notes to Financial Statements
As of and for the Years Ended December 31, 2007 and 2006

7. COMMITMENTS AND CONTINGENCIES

Commitments to Schools, Libraries, and Rural Health Care Facilities- The management of USAC has developed operational procedures to administer the application process through which eligible schools and libraries and rural health care providers apply for benefits under the Schools and Libraries and Rural Health Care Programs, respectively. These operational procedures enable USAC to review and process applications resulting in funding commitment letters that are issued to eligible schools and libraries and rural health care providers. USAC, as the administrator of the USF, also receives funds returned by service providers and beneficiaries and applies those funds to reduce the disbursements to schools, libraries, and rural health care providers.

Fixed Contract Commitments

LaSalle Bank Agreement- On May 1, 2001, USAC entered into an agreement with LaSalle Bank N.A. ("LaSalle") (the "LaSalle Agreement"). The LaSalle Agreement contract period runs from July 1 through June 30 of the following year. The initial LaSalle Agreement five-year contract ended June 30, 2006. On December 28, 2005, USAC notified LaSalle that it would exercise the first of three one-year renewal options under the LaSalle Agreement, which extended the expiration of the LaSalle Agreement from July 1, 2006 to June 30, 2007. In early 2007, USAC notified LaSalle that it would exercise the second one-year renewal and on September 8, 2007, signed an amendment to the contract extending the expiration to June 30, 2008. On May 9, 2008 USAC exercised the final option period of the LaSalle Agreement through June 30, 2009. Under the terms of the LaSalle Agreement, LaSalle provides banking and investment management services for a fixed annual contractual amount that may be satisfied by fees derived by LaSalle from the investment of a portion of the custodial assets.

On July 13, 2006, LaSalle notified USAC that the fees for January 1, 2006 through June 30, 2006, of $528,400 were waived by LaSalle because of fees earned on cash deposits held by LaSalle. In an amendment to the LaSalle Agreement dated September 8, 2006, the parties agreed that fees would be satisfied by USAC maintaining an average monthly cash balance of $76 million.

Solix, Inc. Agreement- On May 1, 2000, USAC entered into an agreement with NECA ("Agreement"). The Agreement was a three-year contract, which ran from July 1, 2000 to June 30, 2003. On July 1, 2002, the Agreement was amended and extended to June 30, 2005, with renewal options through June 30, 2008. On January 1, 2003, the contract was assigned to NECA Services, Inc. On November 14, 2005, NECA Services, Inc. became Solix, Inc. Effective March 29, 2005, USAC executed a partial exercise of the contract renewal option by extending the Agreement through December 31, 2006. On April 25, 2006, USAC executed a partial exercise of the contract renewal option by extending the Agreement through December 31, 2007. On December 12, 2007, USAC exercised the remaining renewal option by extending the Agreement through June 30, 2009. Under the terms of the Agreement, Solix, Inc. provides programmatic support service to the Schools and Libraries and Rural Health Care Programs. The future contractual required payments for the period January 1, 2008 through June 30, 2009, under the Agreement for both the Schools and Libraries and Rural Health Care programs, total $46.4 million.

Telcordia Agreement- On September 2, 2003, USAC entered into an agreement with Telcordia Technologies, Inc. ("Telcordia Agreement"). The Telcordia Agreement is a five-year contract with a four-month transition phase, in the event the contract is not renewed or extended, that runs from September 2, 2003 to December 31, 2008, with a renewal option for one year. Under the terms of the Telcordia Agreement, Telcordia provides program support services to the High Cost and Low Income Programs. The future contractual required payments per year through December 31, 2009, under the Telcordia Agreement, are as follows:

	(in thousands)
2008	$ 3,975
2009	$ 3,930
Total	$ 7,905

Lease Commitments- USAC leases its office space under two operating lease agreements expiring on September 30, 2015. At December 31, 2007, the future minimal rental payments under these leases are as follows:

	(in thousands)
2008	$ 1,558
2009	$ 1,611
2010	$ 1,650
2011	$ 1,694
2012	$ 1,733
Thereafter	$ 5,079
Total	$ 13,325

Rent expense under operating leases was $1.7 million and $1.6 million for the years ended December 31, 2007 and 2006, respectively.

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Legal Disputes- The Company is involved in various legal proceedings and claims incidental to the normal conduct of its business. The Company reports matters herein where the value of a claim asserted by or against the Company exceeds $450,000 or more for an individual matter, or for matters relating to the same plaintiff or defendant that in the aggregate amount to $450,000 or more. All such matters reported herein relate solely to USAC as administrator of the USF. There are no material matters to report that relate solely to USAC as a corporate entity. The Company reports the following matters:

■ A complaint was filed to recover an allegedly preferential payment to USAC in the amount of $457,000 by a telecommunications service provider required to contribute to the USF. On December 22, 2002, the court granted summary judgment in USAC's favor. Plaintiff appealed the judgment, and, in an order filed September 12, 2003, the United States Bankruptcy Appellate Panel (BAP) for the Ninth Circuit reversed the lower court decision. USAC appealed this decision to the United States Court of Appeals for the Ninth Circuit. On September 20, 2006, the Ninth Circuit court affirmed the BAP and remanded the case to the Bankruptcy Court for discovery and trial. USAC and the plaintiff have been discussing a settlement of this matter and the parties have tentatively agreed on settlement terms. There can be no guarantee that a settlement will be consummated, and, in the event no settlement occurs, USAC expects the plaintiff to recommence the litigation by requesting the court to schedule discovery and other activities associated with the litigation. If the litigation recommences, at the present time, USAC is unable to estimate whether an unfavorable outcome is likely or the amount or range of potential loss.

■ A preferential payment suit was filed by a Chapter 11 liquidating trustee in April 2004 in the United States Bankruptcy Court for the Southern District of New York. The trustee is seeking to avoid and recover from USAC alleged preferential pre-petition payments totaling $11.3 million. Because the parties are considering, among other things, whether a post-Chapter 11 order of the Bankruptcy Court explicitly authorized the challenged payments, the parties have mutually agreed to extend USAC's deadline to answer the suit each month for an additional month. As this deadline has been repeatedly extended by the parties at the request of the trustee, USAC expects the parties will continue extending the deadline indefinitely. At the present time, USAC is unable to estimate whether an unfavorable outcome is likely or the amount or range of potential loss.

■ A former employee filed a suit against the Company on May 31, 2007 alleging termination of employment and other discrimination on the basis of race and ancestry in violation of the Civil Rights Act of 1866. The former employee is seeking reinstatement and damages in an unspecified amount. USAC has filed a motion to dismiss the complaint. The motion is pending before the court and there has been no discovery or other proceedings in the case at this time. At the present time, USAC is unable to estimate whether an unfavorable outcome is likely or the amount or range of potential loss.

■ On June 1, 2007, a contributor to the USF filed a Chapter 11 bankruptcy petition. As of July 31, 2007, USAC's post-petition administrative charges against the contributor were $2.8 million. The contributor has informed USAC that it intends to submit revised revenue information that will substantially reduce USAC's administrative claims. At the present time, USAC is unable to estimate what amount the contributor will claim it owes or whether it is entitled to a refund and whether the contributor or USAC will prevail in this matter with the court.

■ A complaint was filed by a telecommunications carrier alleging USAC failed to pay High Cost Support Mechanism benefits in the amount of $900,000 to the company following the acquisition of certain exchanges by the company from another carrier. On October 15, 2007, the court stayed the action indefinitely on the grounds that the FCC has primary jurisdiction to decide the issues raised in the complaint. The FCC has not issued a decision concerning this matter as of yet. At the present time, USAC is unable to estimate whether an unfavorable outcome is likely or the amount or range of potential loss.

■ A complaint was filed on December 28, 2007 by a Schools and Libraries Support Mechanism provider in Texas alleging that USAC failed to make payments on approved funding requests for a support mechanism applicant. The plaintiff seeks to recover liquidated damages of approximately $778,000 plus exemplary damages of three times this amount. The matter is being litigated in the United States District Court for the Southern District of Texas. USAC has filed a motion to dismiss for failure to pursue statutorily required administrative remedies and failure to state a claim for which relief can be granted. The parties are waiting for the court to rule on USAC's motion. At the present time, USAC is unable to estimate whether an unfavorable outcome is likely or the amount or range of potential loss.

■ A complaint was filed on January 2, 2008 by a Schools and Libraries Support Mechanism provider in Kentucky alleging that USAC interfered with the provider's contractual relationships with three separate school districts. The plaintiff has not specified the

amount of damages it is seeking to recover. The matter is being litigated in the United States District Court for the Southern District of Kentucky. USAC has filed a motion to dismiss for failure to pursue statutorily required administrative remedies and failure to state a claim for which relief can be granted. The parties are waiting for the court to rule on USAC's motion. At the present time, USAC is unable to estimate whether an unfavorable outcome is likely or the amount or range of potential loss.

The Company is vigorously defending the matters described above. Although it is impossible to predict the outcome of these or any of the other outstanding legal proceedings involving the Company, the Company believes that such outstanding legal proceedings and claims, individually and in the aggregate, are not likely to have a material effect on its financial position or results of operations.

8. RETIREMENT PLANS

USAC has a 401(k) Retirement Savings Plan covering all USAC regular 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 $1.4 million and $1.3 million during 2007 and 2006, respectively.

9. SUBSEQUENT EVENTS

SAIC Agreement- In January 2008, USAC entered into an agreement with the Science Applications International Corporation ("SAIC Agreement"). The SAIC Agreement is a five-year contract, which runs from January 2, 2008 to December 31, 2012. Under the terms of the agreement, SAIC will provide information technology support services to USAC and upgrade and transition support for hardware, software, and related customer support. The future contractual required payments for the period January 2, 2008 through December 31, 2008, under the SAIC Agreement are $9.5 million.

MIL Agreement- On January 11, 2008, USAC entered into an agreement with MIL Corporation ("MIL Agreement"). The MIL Agreement is a multi-year contract, which runs from January 2008 until completion. Under the terms of the MIL Agreement, MIL will provide requirements to USAC and acquisition support services for the new financial management systems. The future contractual required payments for the period January 2008 through December 31, 2008, under the MIL Agreement are estimated at $737,635.

Combining Supplemental Schedules of Assets and Liabilities Applicable to the Federal USF as of December 31, 2007 and 2006

(unaudited · in thousands)

2007

	Schools & Libraries	High Cost	Low Income	Rural Health Care	TOTAL USF
ASSETS:					
Cash and cash equivalents	$ (560,288)	$ 428,066	$ 85,679	$ 133,814	$ 87,271
Investments	4,921,665	—	—	—	4,921,665
Receivables	355,988	520,740	100,746	9,632	987,106
Allowance for doubtful accounts	(137,837)	(115,167)	(22,916)	(2,216)	(278,136)
Other assets	—	—	—	—	—
Interest receivable	7,381	280	460	(98)	8,023
Assets held for the Federal USF	4,586,909	833,919	163,969	141,132	5,725,929
Receivable from USAC	(18,318)	24,023	3,683	(3,489)	5,899
TOTAL	$ 4,568,591	$ 857,942	$ 167,652	$ 137,643	$ 5,731,828
LIABILITIES:					
Payable to service providers	$ 23,820	$ 8,585	$ 2,610	$ 11	$ 35,026
Payable to contributors	6,392	13,938	2,805	356	23,491
Disbursements in transit	—	—	—	—	—
Accrued liabilities	—	373,085	67,049	—	440,134
TOTAL	$ 30,212	$ 395,608	$ 72,464	$ 367	$ 498,651

2006

	Schools & Libraries	High Cost	Low Income	Rural Health Care	TOTAL USF
ASSETS:					
Cash and cash equivalents	$ (477,719)	$ 318,367	$ 193,547	$ 25,422	$ 59,617
Investments	4,538,319	—	—	—	4,538,319
Receivables	305,710	440,568	79,843	4,820	830,941
Allowance for doubtful accounts	(125,312)	(97,510)	(23,026)	(715)	(246,563)
Other assets	130,000	—	—	—	130,000
Interest receivable	10,573	1,900	817	185	13,475
Assets held for the Federal USF	4,381,571	663,325	251,181	29,712	5,325,789
Receivable from USAC	(8,893)	13,672	2,331	(1,153)	5,957
TOTAL	$ 4,372,678	$ 676,997	$ 253,512	$ 28,559	$ 5,331,746
LIABILITIES:					
Payable to service providers	$ 30,822	$ 20,349	$ 3,144	$ 3	$ 54,318
Payable to contributors	4,116	7,895	1,466	111	13,588
Disbursements in transit	126,878	—	—	—	126,878
Accrued liabilities	—	345,420	64,315	—	409,735
TOTAL	$ 161,816	$ 373,664	$ 68,925	$ 114	$ 604,519

Note—This schedule reflects the assets and liabilities applicable to Federal USF at December 31, 2007 and 2006, 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, 2007 and 2006

(unaudited · in thousands)

2007

	Schools & Libraries	High Cost	Low Income	Rural Health Care	TOTAL USF
ADDITIONS:					
Amounts billed to contributors	$ 1,970,852	$4,412,098	$ 775,959	$ 150,906	$ 7,309,815
Interest income	200,189	20,675	9,716	5,315	235,895
TOTAL ADDITIONS	2,171,041	4,432,773	785,675	156,221	7,545,710
DEDUCTIONS:					
Amount paid and due to service providers	1,760,560	4,292,626	821,522	36,999	6,911,707
Allowance for doubtful accounts	12,525	17,657	(110)	1,501	31,573
Operating expenses	71,638	17,158	6,401	7,231	102,428
Unrealized/realized gain or loss	(7,234)	—	—	—	(7,234)
TOTAL DEDUCTIONS	1,837,489	4,327,441	827,813	45,731	7,038,474
CHANGES IN NET ASSETS	$ 333,552	$ 105,332	$ (42,138)	$ 110,490	$ 507,236

2006

	Schools & Libraries	High Cost	Low Income	Rural Health Care	TOTAL USF
ADDITIONS:					
Amounts billed to contributors	$ 2,140,095	$4,128,382	$ 860,453	$ 28,933	$ 7,157,863
Interest income	167,870	23,650	9,985	2,302	203,807
TOTAL ADDITIONS	2,307,965	4,152,032	870,438	31,235	7,361,670
DEDUCTIONS:					
Amount paid and due to service providers	1,658,313	4,085,011	819,518	40,573	6,603,415
Allowance for doubtful accounts	(1,289)	8,799	2,034	114	9,658
Operating expenses	68,375	12,168	3,715	3,749	88,007
Unrealized/realized gain or loss	(479)	—	—	—	(479)
TOTAL DEDUCTIONS	1,724,920	4,105,978	825,267	44,436	6,700,601
CHANGES IN NET ASSETS	$ 583,045	$ 46,054	$ 45,171	$ (13,201)	$ 661,069

Note—This schedule reflects the changes in net assets of the Federal USF for the years ended December 31, 2007 and 2006, for each of the Support Programs.

Combining Supplemental Schedules of Cash Flows Applicable to the Federal USF for the Year Ended December 31, 2007

(unaudited · in thousands)

2007

	Schools & Libraries	High Cost	Low Income	Rural Health Care	TOTAL USF
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from contributors	$ 2,050,574	$ 4,331,926	$ 755,056	$ 146,094	$ 7,283,650
Interest received	211,945	22,295	10,073	5,598	249,911
Cash paid to service providers	(1,892,164)	(4,270,682)	(817,983)	(36,746)	(7,017,575)
Cash paid for administrative costs	(62,213)	(27,509)	(7,753)	(4,895)	(102,370)
Net cash provided by (used in) operating activities	308,142	56,030	(60,608)	110,051	413,616
CASH FLOWS FROM INVESTING ACTIVITIES:					
Redemption of investments	9,398,862	—	—	—	9,398,862
Purchase of investments	(9,784,824)	—	—	—	(9,784,842)
Net cash used in investing activities	(385,962)	—	—	—	(385,962)
INCREASE (DECREASE) IN CASH EQUIVALENTS	(77,820)	56,030	(60,608)	110,051	27,654
CASH AND CASH EQUIVALENTS:					
Beginning of year	(482,468)	372,036	146,286	23,763	59,617
End of year	$ (560,288)	$ 428,066	$ 85,678	$ 133,815	$ 87,271
RECONCILIATION OF CHANGES IN NET ASSETS PROVIDED BY (USED IN) CASH FROM OPERATING ACTIVITIES:					
Changes in net assets	$ 333,552	$ 105,332	$ (42,138)	$ 110,490	$ 507,236
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:					
Bad debt expense	12,525	17,657	(110)	1,501	31,573
Amortized discount	8,564	—	—	—	8,564
Unrealized/realized gain or loss	(7,234)	—	—	—	(7,234)
Changes in operating assets and liabilities:					
Decrease (increase) in interest receivable	3,192	1,620	357	283	5,452
Decrease (increase) in accounts receivable	(50,278)	(80,172)	(20,903)	(4,812)	(156,165)
Decrease (increase) in receivable from USAC	9,425	(10,351)	(1,352)	2,336	58
Decrease (increase) in other assets	130,000	—	—	—	130,000
Increase (decrease) in liabilities	(131,604)	21,944	3,539	253	(105,868)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 308,142	$ 56,030	$ (60,608)	$ 110,051	$ 413,616

Note—This schedule reflects the cash flows of the Federal USF for the years ended December 31, 2007 and 2006, for each of the Support Programs.

Combining Supplemental Schedules of Cash Flows Applicable to the Federal USF for the Year Ended December 31, 2007

(unaudited · in thousands)

2006

	Schools & Libraries	High Cost	Low Income	Rural Health Care	TOTAL USF
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from contributors	$ 2,204,386	$ 4,114,451	$ 812,719	$ 32,032	$ 7,163,588
Interest received	130,012	21,126	8,895	2,074	162,107
Cash paid to service providers	(1,713,472)	(4,094,094)	(797,623)	(42,059)	(6,647,248)
Cash paid for administrative costs	(63,063)	(10,200)	(2,593)	(3,572)	(79,428)
Net cash provided by (used in) operating activities	557,863	31,283	21,398	(11,525)	599,019
CASH FLOWS FROM INVESTING ACTIVITIES:					
Redemption of investments	5,560,632	—	—	—	5,560,632
Purchase of investments	(8,843,909)	—	—	—	(8,843,909)
Net cash used in investing activities	(3,283,277)	—	—	—	(3,283,277)
INCREASE (DECREASE) IN CASH EQUIVALENTS	(2,725,414)	31,283	21,398	(11,525)	(2,684,258)
CASH AND CASH EQUIVALENTS:					
Beginning of year	2,242,946	340,753	124,888	35,288	2,743,875
End of year	$ (482,468)	$ 372,036	$ 146,286	$ 23,763	$ 59,617
RECONCILIATION OF CHANGES IN NET ASSETS PROVIDED BY (USED IN) CASH FROM OPERATING ACTIVITIES:					
Changes in net assets	$ 583,045	$ 46,054	$ 45,170	$ (13,200)	$ 661,069
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:					
Bad debt expense	(1,289)	8,799	2,034	115	9,659
Amortized discount	(31,719)	—	—	—	(31,719)
Unrealized/realized gain or loss	—	—	—	—	—
Changes in operating assets and liabilities:					
Decrease (increase) in interest receivable	(8,294)	(1,900)	(817)	(185)	(11,196)
Decrease (increase) in accounts receivable	1,796	(30,385)	(22,180)	1,636	(49,133)
Decrease (increase) in receivable from USAC	5,312	1,968	1,123	177	8,580
Decrease (increase) in other assets	(130,000)	—	—	—	(130,000)
Increase (decrease) in liabilities	139,012	6,747	(3,932)	(68)	141,759
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 557,863	$ 31,283	$ 21,398	$ (11,525)	$ 599,019

Note—This schedule reflects the cash flows of the Federal USF for the years ended December 31, 2007 and 2006, for each of the Support Programs.

PRICEWATERHOUSECOOPERS

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REPORT OF INDEPENDENT AUDITORS 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 the financial statements of Universal Service Administrative Company (the "Company") as of and for the year ended December 31, 2007, and have issued our report thereon dated April 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

We consider the deficiency described below to be a significant deficiency in internal controls over financial reporting.

Observation 1
We noted that the Company had not properly reconciled the fixed asset sub-ledger to the general ledger control account(s) throughout the year. Fixed asset activity for the year and related depreciation expense were not accurately recorded until year-end. After management performed a fixed asset inventory numerous expenditures were reviewed at year-end and management determined that the majority of those expenditures were incurred in the current year and qualified for capitalization. The related depreciation associated with the assets acquired during the current year and the prior year was calculated and recorded at that time. The net effect to the financial statements was an adjustment of approximately $2.2 million, resulting from a decrease in accumulated depreciation offset in part by an increase to the cost of fixed assets. This lack of reconciling the fixed asset sub-ledger to the general ledger appears to be the result of turnover in the Finance Department during the year, as well as to an accumulation of errors and unrecorded transactions in the fixed asset and accumulated depreciation accounts during 2007 and in prior years. The Company also has a low capitalization threshold of $250 which increases the number of purchased items that must be capitalized and tracked in the fixed asset sub-ledger. Also, failure to reconcile the fixed asset sub-ledger to the general ledger control account(s) on a periodic basis can lead to the misstatement of fixed assets and related accumulated depreciation and depreciation expense balances on the Company's financial statements.

(continued on next page)

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Recommendation
We recommend the Company maintain an accurate fixed assets sub-ledger throughout the year.
In this regard, management should:

1. Update the existing formal fixed asset policy. The update should consider revising capitalization thresholds.
2. Review assigned fixed asset depreciable lives to ensure the depreciable life is based on a reasonable estimate of the asset's useful life.
3. Ensure that capital additions are identified, reviewed/approved and recorded at the time of acquisition in the sub-ledger.
4. Reconcile the sub-ledger to the general ledger control account(s) on a monthly basis. This reconciliation should include the timely investigation and resolution of noted differences.
5. Provide adequate training to staff to ensure there is a comprehensive understanding of the relationship between amounts recorded in the sub-ledger and the corresponding affect of amounts which are reflected in the general ledger and ultimately in the financial statements.
6. Perform periodic physical inventories of fixed assets to confirm that items recorded in the fixed asset sub-ledger physically exist and are being appropriately maintained and utilized as intended. Missing assets should be identified and investigated.
7. Document and maintain evidence of management's monitoring of fixed asset activity.
8. Account for the retirement of assets in a consistent manner.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a material weakness in internal controls over financial reporting.

Observation 2
We noted that the Company did not update the estimated collection percentages used in the calculation of the allowance for doubtful accounts to accurately reflect historical collection trends and other relevant information. The Company's policy for determining the allowance for doubtful accounts requires the use of a consistent calculation methodology that applies certain percentages to the accounts receivable balances based on the type of payor/customer. However, the Company did not take into consideration all relevant information related to settlement of outstanding accounts receivable balances. An allowance for doubtful accounts analysis that does not include all relevant and current information regarding historical collection trends exposes the Company to a misstated net realizable value of accounts receivable, as evidenced by a $22 million year-end adjustment to the allowance.

Recommendation 9
The Company should continually reevaluate the methodology and data used to determine its estimated allowance for doubtful accounts to ensure that percentages used in the calculation are updated based on historical collection trends, including the most recent write-off and collection activity.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

(continued on next page)

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's response to our observations follows this report. We did not audit management's response and accordingly, we express no opinion on it.

We noted certain other matters that we reported to management of the Company in a separate letter dated April 14, 2008.

This report is intended solely for the information and use of the Company's Audit Committee, management, and the Office of Inspector General of the Federal Communications Commission, and is not intended to be and should not be used by anyone other than these specified parties.

April 14, 2008

USAC
Universal Service Administrative Company

W.B. Erwin
Vice President of Finance

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Washington, DC 20036
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June 25, 2008

Board of Directors
Universal Service Administrative Company
Attn.: Dr. Brian L. Talbott
2000 L Street, NW, Suite 200
Washington, DC 20036

Dear Dr. Talbott:

The FY 2007 Independent Auditor's Reports on Internal Control over Financial Reporting reported a material weakness and a significant deficiency in the internal controls over the financial statement process. USAC Management response is included below.

MATERIAL WEAKNESS

1) Use Current Historical Trend Data When Calculating Allowance for Doubtful Accounts for Universal Service Fund ("USF") Receivable Accounts

USAC Management Response

USAC's practice has been to base the allowance for doubtful accounts on a historical three-year collection pattern modified for any additional operational effects that management may be aware of. USAC has updated the historical information each year during the annual audit process and used that information to revise the allowance and use those new rates for the subsequent year. In previous years, the adjustment to historical rates was included as part of the auditor's recommended adjustments. Management will revise this procedure so the adjustment to the historical rates may be made before the year is closed. Additionally, USAC procedures will be modified to require the review of the historical collection rates on a quarterly basis. USAC will also review the components underlying the calculation of the allowance and insure that the most relevant and timely data is being used in the determination of the allowance.

SIGNIFICANT DEFICIENCY

2) Improve Fixed Assets Records and Accounting Procedures

USAC Management Response

USAC agrees with the observation and recommendation. USAC has taken several actions to address the observed weakness. USAC has reviewed and revised its policy and procedure concerning fixed assets, including capitalization thresholds and useful life criteria. The fixed asset subsidiary ledger is now reconciled to the general ledger on a monthly basis and a roll forward is maintained to identify monthly acquisitions, retirements, and adjustments. USAC has implemented an annual physical inventory of fixed assets with appropriate reconciliation to the general and subsidiary ledgers.

We are committed to continually strengthening USAC's internal controls over financial reporting and processes. We look forward to working in FY 2008 to resolve any FY 2007 audit findings and to further improve the completeness, timeliness, and accuracy of USAC's financial information.

Sincerely,

W. B. Erwin
Vice President of Finance

Program Statistics, Unaudited · 2008

The following pages contain information from the four support programs administered by USAC. To better understand this information, please note the difference between disbursements and commitments as well as program/funding year versus calendar year.

Rural Health Care and Schools and Libraries Program Funding Years	Start Date	End Date
Funding Year 2006	July 1, 2006	June 30, 2007
Funding Year 2007	July 1, 2007	June 30, 2008
Funding Year 2008	July 1, 2008	June 30, 2009

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 Low Income programs disburse funds on a Calendar Year basis. Information in the tables is for Calendar Year 2008.

Note: In the High Cost Program Disbursements by Component table (page 47), High Cost Loop includes disbursements for its two subcomponents, Safety Net Additive Support and Safety Valve Support. Long Term Support (LTS) was merged into Interstate Common Line Support (ICLS) in July 2004. 2008 ICLS disbursements may include LTS based on prior-period adjustments.

DISBURSEMENTS

The tables contain the amount of USF support issued in Calendar Year 2008, which does not reflect certain accounting adjustments. For the Rural Health Care and Schools and Libraries programs, the disbursement information is shown by Funding Year in addition to the total Calendar Year 2008 amount disbursed. For the Rural Health Care and Schools and Libraries programs, disbursement information in the Calendar Year tables may represent multiple Funding Years.

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 USF support payments for a particular Funding Year. Commitments made in Calendar Year 2008 may be for applications filed during previous Funding Years and the current Funding Year.

The tables for the Rural Health Care and Schools and Libraries programs provide Calendar Year 2008 and Funding Year 2008 commitment information. Funding Year 2008 disbursement information is provided for the Schools and Libraries program.

High Cost Study Areas by Category, 2008

(unaudited)

	Incumbent Carriers						
	Rate-of-Return Carriers						
	Cost Company	*Average Schedule*	*Total*	*Price Cap*	*Total ILEC*	*Competitor Study Areas**	*Total Study Areas*
Rural	794	455	1,249	104	1,353	283	1,636
Non-Rural	4	1	5	80	85	253	338
Total	798	456	1,254	184	1,438	536	1,974

*Note: *Competitor count reflects some competitive ETCs that serve in both rural and non-rural study areas and are counted separately in each category.*

High Cost Program · Disbursements by Component, 2008

(unaudited · in thousands)

State	High Cost Loop	High Cost Model	Interstate Access Support	Interstate Common Line Support	Local Switching Support	Total 2008	Total 1998-12/31/08
Alabama	$ 19,994	$ 43,355	$ 19,093	$ 19,646	$ 5,715	$ 107,802	$ 994,799
Alaska	71,404	0	0	75,219	15,561	162,184	1,138,020
American Samoa	0	0	0	2,450	1,536	3,986	18,447
Arizona	29,581	0	17,893	13,100	9,282	69,856	663,748
Arkansas	81,353	0	137	60,956	11,072	153,518	1,197,802
California	35,730	0	40,543	23,991	4,673	104,936	933,553
Colorado	35,263	0	17,669	23,022	4,752	80,706	750,222
Connecticut	0	0	477	(185)	(112)	180	16,093
Delaware	0	0	213	0	0	213	5,693
District of Columbia	0	0	0	0	0	0	0
Florida	10,182	0	53,554	9,847	3,710	77,293	760,051
Georgia	37,820	0	22,865	59,457	14,022	134,164	1,119,359
Guam	1,471	0	0	14,758	0	16,229	86,208
Hawaii	37,545	0	2,081	20,022	2,211	61,859	225,683
Idaho	21,202	0	14,397	11,933	6,365	53,898	509,228
Illinois	20,747	0	11,077	27,869	11,322	71,016	554,772
Indiana	20,030	0	19,455	25,292	9,218	73,994	526,813
Iowa	41,728	0	11,697	55,293	24,424	133,141	770,129
Kansas	132,096	0	6,450	68,210	14,499	221,255	1,417,981
Kentucky	37,616	16,146	15,903	28,516	5,908	104,088	682,317
Louisiana	97,156	0	13,680	43,526	5,972	160,335	1,128,650
Maine	7,294	2,185	54	15,409	7,508	32,450	327,268
Maryland	242	0	2,346	885	599	4,072	36,236
Massachusetts	53	0	1,502	174	635	2,365	54,883
Michigan	27,020	0	720	25,597	10,660	63,996	532,089
Minnesota	50,605	0	3,821	60,625	18,913	133,964	920,444
Mississippi	35,804	203,920	23,319	21,148	4,935	289,126	1,915,345
Missouri	54,674	0	9,850	38,960	7,046	110,530	887,665
Montana	28,155	18,993	827	24,325	7,017	79,317	700,535
Nebraska	37,126	10,997	8,631	35,624	21,311	113,689	571,665
Nevada	5,079	0	10,088	6,686	5,970	27,823	260,812
New Hampshire	260	0	848	3,543	4,011	8,662	104,968
New Jersey	0	0	253	333	432	1,018	25,702
New Mexico	28,770	0	12,335	16,905	7,214	65,224	550,936
New York	7,484	0	13,820	12,836	13,514	47,654	549,525
North Carolina	12,359	0	26,389	34,770	4,751	78,269	667,909
North Dakota	36,109	0	822	40,760	15,814	93,505	560,948
Northern Mariana Islands	0	0	248	0	473	722	28,054
Ohio	8,842	0	11,112	16,124	3,896	39,973	354,907
Oklahoma	73,927	0	1,945	52,750	16,314	144,936	1,073,473
Oregon	30,335	0	18,288	25,393	9,940	83,955	695,586
Pennsylvania	1,870	0	20,158	28,216	4,092	54,335	505,932
Puerto Rico	0	0	0	215,609	0	215,609	1,451,503
Rhode Island	0	0	31	0	0	31	423
South Carolina	31,800	0	10,077	45,187	5,408	92,472	745,619
South Dakota	44,999	2,381	111	35,343	12,413	95,246	575,870
Tennessee	15,519	0	9,353	24,825	6,124	55,821	503,580
Texas	116,682	0	46,041	77,760	19,200	259,685	2,139,430
Utah	5,308	0	2,358	8,997	3,785	20,447	205,708
Vermont	6,041	9,606	1,357	8,530	3,550	29,084	284,256
Virgin Islands	8,994	0	0	12,135	0	21,129	268,728
Virginia	3,283	0	56,999	9,277	5,029	74,587	675,242
Washington	31,468	0	(1,811)	39,257	8,128	77,042	837,998
West Virginia	8,731	29,961	19,997	3,304	3,331	65,325	677,541
Wisconsin	38,998	0	181	81,715	25,463	146,357	1,031,848
Wyoming	17,187	13,026	5,363	14,819	8,319	58,714	491,419
TOTAL	$ 1,505,937	$ 350,571	$ 584,614	$ 1,620,740	$ 415,924	$ 4,477,786	$ 34,713,615

Note: See note on page 46 under Calendar Year. Numbers may not add due to rounding.

High Cost Program · Disbursements by Rural / Non-Rural, 2008

(unaudited · in thousands)

State	Total Rural	Total Non-Rural	Total 2008
Alabama	$ 43,321	$ 64,481	$ 107,802
Alaska	119,195	42,989	162,184
American Samoa	1,858	2,128	3,986
Arizona	54,032	15,824	69,856
Arkansas	129,824	23,694	153,518
California	65,873	39,064	104,936
Colorado	59,421	21,285	80,706
Connecticut	(298)	477	180
Delaware	0	213	213
District of Columbia	0	0	0
Florida	38,501	38,792	77,293
Georgia	102,209	31,954	134,164
Guam	7,870	8,359	16,229
Hawaii	48,383	13,476	61,859
Idaho	51,185	2,714	53,898
Illinois	57,449	13,567	71,016
Indiana	54,636	19,358	73,994
Iowa	99,597	33,544	133,141
Kansas	193,818	27,437	221,255
Kentucky	64,302	39,786	104,088
Louisiana	129,232	31,103	160,335
Maine	24,927	7,523	32,450
Maryland	1,726	2,346	4,072
Massachusetts	863	1,502	2,365
Michigan	54,271	9,725	63,996
Minnesota	110,440	23,524	133,964
Mississippi	52,753	236,373	289,126
Missouri	99,512	11,019	110,530
Montana	56,751	22,566	79,317
Nebraska	76,634	37,055	113,689
Nevada	18,279	9,544	27,823
New Hampshire	7,749	913	8,662
New Jersey	1,018	0	1,018
New Mexico	53,560	11,664	65,224
New York	38,960	8,694	47,654
North Carolina	53,917	24,352	78,269
North Dakota	72,337	21,168	93,505
Northern Mariana Islands	552	170	722
Ohio	33,869	6,104	39,973
Oklahoma	131,259	13,677	144,936
Oregon	60,533	23,422	83,955
Pennsylvania	41,703	12,632	54,335
Puerto Rico	0	215,609	215,609
Rhode Island	0	31	31
South Carolina	81,005	11,467	92,472
South Dakota	78,923	16,323	95,246
Tennessee	48,275	7,546	55,821
Texas	217,771	41,913	259,685
Utah	19,075	1,372	20,447
Vermont	16,349	12,736	29,084
Virgin Islands	19,945	1,184	21,129
Virginia	26,715	47,872	74,587
Washington	65,661	11,381	77,042
West Virginia	21,995	43,329	65,325
Wisconsin	108,342	38,015	146,357
Wyoming	36,352	22,362	58,714
TOTAL	$ 3,052,428	$ 1,425,357	$ 4,477,786

Note: Numbers may not add due to rounding.

High Cost Program · Disbursements by Incumbent v. Competitive ETC, 2008

(unaudited · in thousands)

State	Incumbent ETC	Competitive ETC	Total 2008
Alabama	$ 89,052	$ 18,750	$ 107,802
Alaska	87,645	74,539	162,184
American Samoa	673	3,313	3,986
Arizona	57,388	12,468	69,856
Arkansas	91,833	61,686	153,518
California	104,652	284	104,936
Colorado	70,409	10,297	80,706
Connecticut	180	0	180
Delaware	213	0	213
District of Columbia	0	0	0
Florida	62,842	14,451	77,293
Georgia	110,709	23,455	134,164
Guam	7,121	9,108	16,229
Hawaii	28,207	33,653	61,859
Idaho	46,202	7,697	53,898
Illinois	58,367	12,649	71,016
Indiana	66,440	7,553	73,994
Iowa	68,151	64,990	133,141
Kansas	135,791	85,463	221,255
Kentucky	75,277	28,812	104,088
Louisiana	94,023	66,312	160,335
Maine	21,209	11,241	32,450
Maryland	4,072	0	4,072
Massachusetts	2,365	0	2,365
Michigan	41,667	22,330	63,996
Minnesota	83,982	49,982	133,964
Mississippi	127,609	161,517	289,126
Missouri	92,141	18,390	110,530
Montana	66,366	12,951	79,317
Nebraska	54,168	59,520	113,689
Nevada	20,979	6,844	27,823
New Hampshire	8,380	281	8,662
New Jersey	1,018	0	1,018
New Mexico	49,996	15,228	65,224
New York	44,719	2,936	47,654
North Carolina	68,314	9,954	78,269
North Dakota	47,036	46,469	93,505
Northern Mariana Islands	276	446	722
Ohio	39,973	0	39,973
Oklahoma	112,897	32,039	144,936
Oregon	59,804	24,151	83,955
Pennsylvania	52,805	1,531	54,335
Puerto Rico	59,557	156,051	215,609
Rhode Island	31	0	31
South Carolina	85,924	6,549	92,472
South Dakota	58,389	36,857	95,246
Tennessee	54,716	1,105	55,821
Texas	223,234	36,451	259,685
Utah	20,083	364	20,447
Vermont	22,713	6,372	29,084
Virgin Islands	19,737	1,392	21,129
Virginia	59,484	15,103	74,587
Washington	64,379	12,663	77,042
West Virginia	48,114	17,210	65,325
Wisconsin	82,563	63,794	146,357
Wyoming	39,426	19,288	58,714
TOTAL	$ 3,093,299	$1,384,487	$ 4,477,786

Note: Numbers may not add due to rounding.

Low Income Program · Disbursements by Component, 2008

(unaudited · in thousands)

State	Lifeline	Link Up	Toll Limitation Service*	Total 2008	Total 1998-12/31/08
Alabama	$ 8,267	$ 1,589	$ 425	$ 10,282	$ 40,429
Alaska	21,137	190	74	21,401	70,689
American Samoa	62	1	0	63	613
Arizona	21,438	248	56	21,742	144,471
Arkansas	2,985	158	6	3,149	18,956
California	209,128	12,981	3,897	226,005	3,151,338
Colorado	3,143	41	6	3,190	33,484
Connecticut	4,226	61	1	4,288	54,525
Delaware	195	3	0	198	2,050
District of Columbia	639	7	0	646	10,245
Florida	24,019	395	(131)	24,283	179,035
Georgia	11,725	1,332	34	13,091	89,433
Guam	295	16	0	311	3,083
Hawaii	478	4	1	482	9,913
Idaho	3,487	35	9	3,531	31,570
Illinois	8,462	1,101	119	9,681	83,753
Indiana	4,982	366	49	5,397	43,364
Iowa	4,899	94	33	5,025	36,460
Kansas	2,879	65	59	3,003	20,734
Kentucky	7,360	414	90	7,864	61,858
Louisiana	3,824	575	44	4,443	30,919
Maine	7,756	307	7	8,070	91,156
Maryland	623	45	0	669	5,228
Massachusetts	10,882	4	1	10,887	159,834
Michigan	11,342	761	102	12,204	133,236
Minnesota	7,621	118	85	7,824	57,445
Mississippi	6,840	1,067	13	7,920	35,786
Missouri	7,751	179	127	8,057	44,618
Montana	4,053	41	12	4,106	24,576
Nebraska	2,297	32	15	2,344	19,600
Nevada	2,661	79	8	2,748	30,667
New Hampshire	526	1	0	528	5,897
New Jersey	12,847	120	2	12,970	91,690
New Mexico	14,876	167	48	15,090	86,489
New York	35,701	17	8	35,726	532,660
North Carolina	14,516	440	85	15,040	116,480
North Dakota	3,359	33	10	3,402	27,564
Northern Mariana Islands	125	13	0	138	743
Ohio	30,460	881	225	31,565	270,987
Oklahoma	56,260	5,921	1,362	63,543	246,849
Oregon	5,544	76	11	5,630	51,036
Pennsylvania	14,261	711	2	14,974	119,928
Puerto Rico	22,476	880	0	23,356	100,255
Rhode Island	3,653	7	1	3,661	47,833
South Carolina	5,044	822	61	5,927	31,122
South Dakota	3,544	9	21	3,574	41,710
Tennessee	9,800	896	76	10,772	61,964
Texas	98,314	4,948	656	103,918	597,763
Utah	3,751	41	20	3,812	28,245
Vermont	3,081	16	2	3,099	31,818
Virgin Islands	118	0	0	118	503
Virginia	2,369	68	0	2,437	24,156
Washington	16,125	521	26	16,672	139,621
West Virginia	654	13	1	668	6,133
Wisconsin	8,184	722	131	9,037	78,771
Wyoming	703	8	21	731	6,153
TOTAL	$ 771,746	$ 39,639	$ 7,910	$ 819,295	$ 7,465,438

**Negative amounts result from over-claimed support recovered after an audit. Note: Numbers may not add due to rounding.*

Low Income Program · Disbursements by Incumbent v. Competitive ETC, 2008

(unaudited · in thousands)

State	Incumbent ETC	Competitive ETC	Total 2008
Alabama	$ 6,114	$ 4,168	$ 10,282
Alaska	3,441	17,960	21,401
American Samoa	63	0	63
Arizona	4,868	16,874	21,742
Arkansas	3,149	0	3,149
California	224,224	1,782	226,005
Colorado	3,166	24	3,190
Connecticut	4,259	29	4,288
Delaware	198	0	198
District of Columbia	646	0	646
Florida	21,981	2,301	24,283
Georgia	13,088	3	13,091
Guam	311	0	311
Hawaii	482	0	482
Idaho	3,344	187	3,531
Illinois	8,018	1,663	9,681
Indiana	5,394	3	5,397
Iowa	4,200	825	5,025
Kansas	2,460	543	3,003
Kentucky	6,363	1,501	7,864
Louisiana	4,013	430	4,443
Maine	7,439	631	8,070
Maryland	669	0	669
Massachusetts	10,887	0	10,887
Michigan	10,581	1,623	12,204
Minnesota	6,187	1,637	7,824
Mississippi	6,153	1,767	7,920
Missouri	7,175	882	8,057
Montana	2,410	1,695	4,106
Nebraska	1,907	437	2,344
Nevada	2,660	88	2,748
New Hampshire	523	4	528
New Jersey	12,970	0	12,970
New Mexico	7,496	7,594	15,090
New York	34,702	1,025	35,726
North Carolina	14,734	306	15,040
North Dakota	2,458	944	3,402
Northern Mariana Islands	136	1	138
Ohio	31,565	0	31,565
Oklahoma	16,104	47,439	63,543
Oregon	5,421	209	5,630
Pennsylvania	14,936	38	14,974
Puerto Rico	15,004	8,352	23,356
Rhode Island	3,018	643	3,661
South Carolina	5,722	205	5,927
South Dakota	1,651	1,923	3,574
Tennessee	9,348	1,424	10,772
Texas	96,525	7,393	103,918
Utah	3,606	205	3,812
Vermont	2,878	221	3,099
Virgin Islands	118	0	118
Virginia	2,141	296	2,437
Washington	10,581	6,091	16,672
West Virginia	620	48	668
Wisconsin	7,449	1,587	9,037
Wyoming	462	269	731
TOTAL	$ 676,021	$ 143,274	$ 819,295

Note: Numbers may not add due to rounding.

Schools and Libraries Program · Commitments and Disbursements, 2008

(unaudited · in thousands)

State	Funding Year 2008		Calendar Year 2008		Total Program	
	Commitments	Disbursements	Commitments	Disbursements	Commitments 1/1/98-12/31/08	Disbursements 1/1/98-12/31/08
Alabama	$ 27,382	$ 5,569	$ 45,253	$ 37,898	$ 346,470	$ 268,461
Alaska	7,008	853	22,037	20,405	164,865	132,409
American Samoa	0	0	4,550	0	19,619	15,072
Arizona	41,827	2,552	67,177	50,755	563,123	371,174
Arkansas	12,088	1,851	40,461	27,567	213,796	131,145
California	211,420	11,238	291,106	230,214	3,303,597	2,190,764
Colorado	18,015	2,317	20,124	16,679	205,001	145,079
Connecticut	27,812	3,762	41,913	27,152	279,309	210,280
Delaware	876	2	876	1,739	13,796	10,484
District of Columbia	1,213	29	14,146	21,403	141,904	73,136
Florida	81,971	6,049	100,102	76,306	777,544	524,524
Georgia	60,623	6,037	78,778	60,230	733,557	533,802
Guam	37	6	37	1,021	20,932	15,823
Hawaii	3,369	30	3,502	2,083	41,321	23,230
Idaho	5,161	364	5,639	4,482	48,932	32,192
Illinois	60,117	2,442	90,285	96,473	1,044,456	745,242
Indiana	19,708	946	32,216	25,694	270,091	169,809
Iowa	12,651	1,987	17,445	10,669	114,984	77,194
Kansas	14,519	1,576	19,470	14,262	153,743	106,946
Kentucky	23,775	2,335	35,629	29,611	364,127	239,501
Louisiana	32,511	7,034	48,699	38,242	457,050	345,518
Maine	5,252	244	5,608	5,448	67,336	45,813
Maryland	9,471	662	15,436	17,327	197,143	134,111
Massachusetts	23,913	2,804	26,424	23,085	356,913	245,739
Michigan	35,710	5,675	49,087	51,287	637,386	432,092
Minnesota	18,943	1,070	22,123	22,315	257,855	186,967
Mississippi	28,922	3,410	35,074	25,615	379,195	256,503
Missouri	20,562	2,394	31,365	17,142	415,377	298,734
Montana	4,158	917	4,160	3,471	42,490	31,655
Nebraska	8,925	1,642	10,224	9,248	82,161	63,196
Nevada	5,018	180	11,793	3,972	55,780	36,994
New Hampshire	2,841	48	3,245	1,819	21,457	12,812
New Jersey	40,090	1,610	47,359	42,185	539,366	368,988
New Mexico	20,328	1,281	33,134	32,584	443,267	266,156
New York	343,799	16,874	508,701	144,891	3,321,129	1,932,814
North Carolina	46,296	8,013	61,883	52,882	494,088	359,615
North Dakota	4,036	1,386	4,345	4,480	38,839	31,162
Northern Mariana Islands	785	3	785	762	11,492	8,477
Ohio	52,278	5,585	75,111	66,602	769,955	520,128
Oklahoma	38,967	7,154	45,507	39,070	446,242	318,253
Oregon	15,720	911	17,288	10,454	144,998	93,206
Pennsylvania	82,767	7,610	92,579	55,172	780,532	591,646
Puerto Rico	6,841	1,375	16,346	4,452	275,380	160,428
Rhode Island	5,977	808	6,523	5,021	71,244	52,968
South Carolina	10,575	1,070	21,303	23,385	458,803	317,879
South Dakota	4,558	662	4,622	8,231	53,914	34,455
Tennessee	67,420	6,429	89,934	41,148	565,146	381,428
Texas	140,991	9,561	256,353	147,918	2,365,440	1,691,881
Utah	19,397	73	19,640	12,744	128,566	79,608
Vermont	1,984	70	2,045	1,440	19,712	12,262
Virgin Islands	515	216	5,296	5,140	38,257	30,463
Virginia	30,148	1,334	32,310	27,813	304,774	229,160
Washington	20,150	1,022	24,625	25,524	252,214	174,616
West Virginia	12,958	846	15,850	9,801	105,474	63,683
Wisconsin	13,793	617	14,994	21,367	279,797	209,289
Wyoming	1,928	293	2,136	3,168	31,535	22,389
TOTAL	$1,808,098	$150,830	$2,592,652	$1,759,845	$23,731,475	$16,057,353

Note: Funding Year data as of 12/31/2008. Funding Year 2008: July 1, 2008-June 30, 2009. Numbers may not add due to rounding.

Schools and Libraries Program · Funding Year 2008 Statistics

(unaudited · in thousands)

Schools and Libraries Commitments by Discount Band

Discount Band	Telecom Services	Internet Access	Internal Connections	Basic Maintenance	Total Dollars	% of Total Dollars
20—29%	$ 2,072	$ 627	*Internal Connections and Basic Maintenance were funded at the 88% level and above, as of 12/31/2008.*		$ 2,699	0.15%
30—39%	6,334	992			7,326	0.41%
40—49%	96,908	23,153			120,061	6.64%
50—59%	115,529	26,932			142,461	7.88%
60—69%	179,676	44,506			224,182	12.40%
70—79%	226,246	73,068			299,314	16.55%
80—89%	317,406	69,907	$ 21,001	$ 9,283	417,597	23.10%
90%	96,521	30,222	408,9178	58,796	594,458	32.88%
TOTAL	$ 1,040,691	$ 269,408	$ 429,919	$ 68,079	$ 1,808,098	100.00%

Schools and Libraries Commitments by Applicant Type

Type	Applications Funded	Commitments	% of Applications	% of Total
School/Library Consortium	743	$ 139,572	2.36%	7.72%
School District	19,143	$ 1,489,608	60.92%	82.39%
School	7,350	$ 112,669	23.39%	6.23%
Library/Library Consortium	4,186	$ 66,249	13.32%	3.66%
TOTAL	31,422	$ 1,808,098	100.00%	100.00%

Note: Funding Year data as of 12/31/2008. Funding Year: July 1, 2008-June 30, 2009.

Rural Health Care Program · Commitments and Disbursements, 2008

(unaudited · in thousands)

State	Commitments		Disbursements	
	Calendar Year 2008	Total 1/1/98-12/31/08	Calendar Year 2008	Total 1/1/98-12/31/08
Alabama	$ 162	$ 643	$ 104	$ 506
Alaska	25,128	152,290	28,883	131,172
American Samoa	108	108	108	108
Arizona	1,310	9,663	1,087	7,363
Arkansas	317	1,177	128	765
California	710	3,517	647	2,913
Colorado	61	1,123	35	1,017
Connecticut	0	0	0	0
Delaware	0	0	0	0
District of Columbia	0	0	0	0
Florida	331	1,980	270	1,208
Georgia	1,002	3,166	1,164	2,502
Guam	13	104	0	0
Hawaii	128	2,046	211	1,900
Idaho	187	1,104	195	944
Illinois	671	3,091	578	2,398
Indiana	492	1,282	427	977
Iowa	376	2,077	328	1,785
Kansas	222	3,043	624	2,848
Kentucky	469	3,266	282	2,836
Louisiana	59	1,029	57	891
Maine	14	304	57	182
Maryland	0	0	0	0
Massachusetts	129	224	130	219
Michigan	1,041	5,949	742	4,884
Minnesota	1,946	9,971	1,977	8,951
Mississippi	155	958	159	914
Missouri	290	1,069	162	790
Montana	617	4,520	680	4,311
Nebraska	1,353	8,136	2,058	7,684
Nevada	61	497	32	380
New Hampshire	0	73	0	71
New Jersey	0	0	0	0
New Mexico	325	2,567	500	2,319
New York	65	403	61	319
North Carolina	209	1,515	160	1,368
North Dakota	394	4,562	424	4,095
Northern Mariana Islands	0	5	0	0
Ohio	177	1,092	195	826
Oklahoma	292	1,328	70	825
Oregon	138	474	125	397
Pennsylvania	122	448	91	334
Puerto Rico	0	0	0	0
Rhode Island	0	0	0	0
South Carolina	51	279	5	218
South Dakota	787	5,180	1,184	4,801
Tennessee	321	996	402	871
Texas	264	3,090	235	2,052
Utah	309	3,721	503	3,258
Vermont	16	402	137	380
Virgin Islands	0	688	51	604
Virginia	352	2,997	743	2,318
Washington	64	655	74	547
West Virginia	140	783	155	652
Wisconsin	3,414	11,497	3,013	9,276
Wyoming	188	1,077	205	969
TOTAL	$ 44,981	$ 266,167	$ 49,458	$ 226,946

Note: There were no funding commitments in Funding Year 2008 (July 1, 2008-June 30,2009) as of December 31, 2008. Numbers may not add due to rounding.

Universal Service Fund Disbursements by Program · Calendar Year 2008

(unaudited · in thousands)

State	High Cost	Low Income	Rural Health Care	Schools & Libraries	Total 2008 Disbursements	Total All Programs 1998-2008
Alabama	$ 107,802	$ 10,282	$ 104	$ 37,898	$ 156,086	$ 1,304,194
Alaska	162,184	21,401	28,883	20,405	232,872	1,472,262
American Samoa	3,986	63	108	0	4,157	34,240
Arizona	69,856	21,742	1,087	50,755	143,440	1,186,755
Arkansas	153,518	3,149	128	27,567	184,362	1,348,666
California	104,936	226,005	647	230,214	561,803	6,278,567
Colorado	80,706	3,190	35	16,679	100,611	929,801
Connecticut	180	4,288	0	27,152	31,620	280,897
Delaware	213	198	0	1,739	2,151	18,227
District of Columbia	0	646	0	21,403	22,049	83,381
Florida	77,293	24,283	270	76,306	178,153	1,464,816
Georgia	134,164	13,091	1,164	60,230	208,648	1,745,096
Guam	16,229	311	0	1,021	17,561	105,114
Hawaii	61,859	482	211	2,083	64,636	260,725
Idaho	53,898	3,531	195	4,482	62,107	573,932
Illinois	71,016	9,681	578	96,473	177,749	1,386,170
Indiana	73,994	5,397	427	25,694	105,512	740,965
Iowa	133,141	5,025	328	10,669	149,163	885,569
Kansas	221,255	3,003	624	14,262	239,143	1,548,509
Kentucky	104,088	7,864	282	29,611	141,845	986,510
Louisiana	160,335	4,443	57	38,242	203,077	1,505,978
Maine	32,450	8,070	57	5,448	46,024	464,418
Maryland	4,072	669	0	17,327	22,068	175,562
Massachusetts	2,365	10,887	130	23,085	36,468	460,674
Michigan	63,996	12,204	742	51,287	128,230	1,102,300
Minnesota	133,964	7,824	1,977	22,315	166,080	1,173,807
Mississippi	289,126	7,920	159	25,615	322,821	2,208,547
Missouri	110,530	8,057	162	17,142	135,891	1,231,805
Montana	79,317	4,106	680	3,471	87,575	761,076
Nebraska	113,689	2,344	2,058	9,248	127,339	662,145
Nevada	27,823	2,748	32	3,972	34,576	328,853
New Hampshire	8,662	528	0	1,819	11,009	123,748
New Jersey	1,018	12,970	0	42,185	56,172	486,380
New Mexico	65,224	15,090	500	32,584	113,399	905,901
New York	47,654	35,726	61	144,891	228,333	3,015,319
North Carolina	78,269	15,040	160	52,882	146,351	1,145,385
North Dakota	93,505	3,402	424	4,480	101,811	623,769
Northern Mariana Islands	722	138	0	762	1,621	37,273
Ohio	39,973	31,565	195	66,602	138,335	1,146,847
Oklahoma	144,936	63,543	70	39,070	247,619	1,639,400
Oregon	83,955	5,630	125	10,454	100,164	840,229
Pennsylvania	54,335	14,974	91	55,172	124,572	1,217,840
Puerto Rico	215,609	23,356	0	4,452	243,416	1,712,186
Rhode Island	31	3,661	0	5,021	8,713	101,223
South Carolina	92,472	5,927	5	23,385	121,789	1,094,837
South Dakota	95,246	3,574	1,184	8,231	108,235	656,836
Tennessee	55,821	10,772	402	41,148	108,143	947,845
Texas	259,685	103,918	235	147,918	511,755	4,431,126
Utah	20,447	3,812	503	12,744	37,505	316,819
Vermont	29,084	3,099	137	1,440	33,761	328,716
Virgin Islands	21,129	118	51	5,140	26,438	300,297
Virginia	74,587	2,437	743	27,813	105,581	930,875
Washington	77,042	16,672	74	25,524	119,312	1,152,781
West Virginia	65,325	668	155	9,801	75,948	748,011
Wisconsin	146,357	9,037	3,013	21,367	179,773	1,329,182
Wyoming	58,714	731	205	3,168	62,818	520,929
TOTAL BY PROGRAM	$ 4,477,786	$ 819,295	$ 49,458	$ 1,759,845	$ 7,106,384	$ 58,463,313

Note: Numbers may not add due to rounding.

2008 Service Provider Participation

Program	Service Providers
High Cost	1,974 eligible telecommunications carriers
Low Income	1,783 eligible telecommunications carriers
Rural Health Care	448 service providers* (telecom and Internet access)
Schools and Libraries	4,064 service and equipment providers*

*Note: As of December 31, 2008. *Based on receipt of invoice payment in 2008.*

Service provider participation continues to be positive and competitive. Currently, there are over 21,000 service provider identification numbers (SPINs—the nine digit number assigned to service providers participating in universal service programs), equating to more than 6,500 service providers that actively participate in the universal service support mechanisms. These service providers include local and interstate telecommunications companies, Internet service providers (ISPs), and various internal connections contractors.

2008 USAC Contractors

Contractor/ Vendor	Type of Account	Type of Goods/Services	Procurement Method
KPMG LLP	Other Contractual Services	FCC OIG USF Audits	Competitive bid
Solix, Inc.	Other Contractual Services	RHC-SL Operational Support Services	Competitive bid
Ernst & Young LLP	Other Contractual Services	FCC OIG USF Audits	Competitive bid
Science Applications International Corp.	Other Contractual Services	RHC-SL Information Technology Services	Competitive bid
Telcordia Technologies, Inc.	Other Contractual Services	High Cost/Low Income Support Services	Competitive bid
Grant Thornton LLP	Other Contractual Services	FCC OIG USF Audits Internal Controls Consulting	Competitive bid
BearingPoint, Inc.	Other Contractual Services	Beneficiary Site Visits	Competitive bid
Clifton Gunderson LLP	Other Contractual Services	FCC OIG USF Audits	Competitive bid
Deloitte & Touche LLP	Other Contractual Services	FCC OIG USF Audits	Competitive bid
Thompson, Cobb, Bazillio & Associates, Inc.	Other Contractual Services	FCC OIG USF Audits	Competitive bid
The Guardian Life Insurance Company of America	Personnel Benefits	Employee benefits	Competitive bid
Washington Consulting, Inc.	Other Contractual Services	FCC OIG USF Audit Program Management and RHC Pilot Program	Competitive bid
Brookfield Properties Corp.	Rent, Communications, and Utilities	Office lease for 2008	Competitive bid
Cotton & Company LLP	Other Contractual Services	FCC OIG USF Audits	Competitive bid
Moss Adams LLP	Other Contractual Services	FCC OIG USF Audits	Competitive bid
McBride, Lock & Assoc.	Other Contractual Services	FCC OIG USF Audits	Competitive bid

Dollar Range: *$1M-$5M* *$5M-$10M* *+$25M*

Note: This table presents contract expenditures over $1 million that USAC made during calendar year 2008, in descending order of size.

USAC's Board of Directors · 2008

Members of the USAC Board of Directors are selected by the Chairman of the FCC from nominations made by constituent groups who are USF stakeholders. Board members represent the telecommunications and information services industry, state telecommunications regulators, consumer advocates, low-income consumers, rural health care providers, schools, and libraries. The USAC Board of Directors has six standing committees: Audit Committee, Executive Committee, Executive Compensation Committee, High Cost and Low Income Committee, Rural Health Care Committee, and Schools and Libraries Committee.

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Vice President,
External Affairs and Marketing
Iowa Telecommunications Services, Inc.
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Acting Chief Executive Officer
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Secretary, USAC Board of Directors
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The Universal Service Administrative Company (USAC)

is an independent, not-for-profit corporation overseen by the Federal Communications Commission that administers the Universal Service Fund and the USF support programs, which are dedicated to ensuring that all Americans receive the benefits of affordable and efficient access to telecommunications and information services. Working closely with the FCC and our stakeholders, USAC has helped make universal service possible.

For more information, go to www.usac.org