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

2009 ANNUAL REPORT

USAC
Universal Service Administrative Company

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Overview

USAC administers the Universal Service Fund (USF) and its four programs — High Cost, Low Income, Rural Health Care, and Schools and Libraries — under terms defined by the Telecommunications Act of 1996 as well as regulations, orders, and directives issued by the Federal Communications Commission (FCC or Commission) and its Bureaus and Offices.

Beneficiaries across the country keep connected thanks to USF support disbursed to service providers participating in one or more of these programs. These beneficiaries include Americans living in remote or rural areas, low-income consumers, rural health care providers, and public and private schools and public libraries.

The **HIGH COST PROGRAM** ensures that consumers across the country pay rates for telecommunications services that are comparable to those available in urban areas. In 2009, over 1,800 eligible carriers received High Cost Program support.

The **LOW INCOME PROGRAM** helps eligible low-income consumers establish and maintain telephone service by discounting services provided to them by local telephone companies. Over 8 million low-income households throughout the nation benefited from the program in 2009.

The **RURAL HEALTH CARE PROGRAM** provides reduced rates to rural health care providers for telecommunications and Internet services necessary to provide health care. Almost 3,000 health care providers received support this year. The Rural Health Care Pilot Program is supporting the development of advanced networks to expand telemedicine services across the country.

The **SCHOOLS AND LIBRARIES PROGRAM**, often called the "E-rate" program, provides discounts to help schools and libraries in every U.S. state and territory secure affordable telecommunications, Internet access, basic maintenance, and internal connections. Over 21,000 eligible applicants benefited from Schools and Libraries Program support this year to bring telecommunications and Internet services to millions of students and library patrons.

The past year was one of accomplishment for USAC.

We implemented a host of advances in operations, infrastructure, and outreach in an effort to continue to improve collection and disbursement of USF support and to enhance USAC's ability to effectively and efficiently serve our many stakeholders. In a year of historic economic challenges, when USF support was more important than ever in ensuring access to the tools Americans use to keep connected, USAC disbursed more money more quickly and focused on preparing for what we anticipate will be many initiatives to come in 2010 and beyond.

USAC's operations and infrastructure sit at the core of our work administering the USF. USAC took measures in 2009 to improve efficiency and reduce our already low administrative costs. We transferred High Cost and Low Income Program operations from a contractor to USAC personnel, which will improve performance, significantly reduce costs, and better prepare USAC to respond to program changes in the future. We also transferred information technology systems for the Rural Health Care and Schools and Libraries Programs to USAC-managed facilities to facilitate development of wide-reaching systems upgrades for both programs. These upgrades will allow us to process applications and invoices more efficiently, and set the stage for new, better services for program participants.

In 2009, USAC completed fieldwork and preliminary reporting for the third and final round of the FCC Office of Inspector General (OIG) USF audit program. The final data on the first round of the program supported USAC's initial report that the early estimates of "improper" payments were too high. In the High Cost Program, the final improper payment rate dropped to 2.7% from the early estimate of 16.6%. The Schools and Libraries Program improper payment rate dropped to 8.6% from an initially reported 12.9%. USAC anticipates similar results in the final reports on the second and third rounds of the FCC OIG USF audit program.

In 2010, USAC will transition to a new approach, analyzing data from beneficiaries and from USAC to measure rates of improper payments and using a broad audit program to measure program compliance. This new approach will

USAC's operations are complex—we issued over 55,000 USF contributor invoices, made over 78,000 disbursements to applicants and service providers, and handled over 120,000 customer calls.

reduce costs for USAC and program participants, generate more accurate data, and enhance program integrity by broadening coverage to all four universal service programs as well as USF contributors.

USAC continues to expand outreach activities to provide more help for more program participants in more ways. In 2009, we continued expanding our new media services, offering a series of webinars and producing numerous online learning videos, all targeting key areas of program requirements. We enhanced both our group training sessions and one-on-one outreach, reaching over 3,000 people face-to-face with more interactive support focused on the problems program beneficiaries experience getting USF support. We will keep working on ways to improve customer service and welcome any suggestions on how to do so.

All of these activities are possible only because of USAC's highly skilled professional staff. USAC's operations are complex – we issued over 55,000 USF contributor invoices, made over 78,000 disbursements to applicants and service providers, and handled over 120,000 customer calls. As our responsibilities and activities expanded in 2009, we enjoyed a low turnover rate and quickly brought new employees up to speed in providing help with our IT, outreach, and audit tasks.

As the new administration took office, USAC worked to establish strong working relationships with Acting FCC Chairman Copps and then with Chairman Genachowski and their teams. We want to thank the Commission and its staff for helping us to move forward in a year of transition. Support from the Commission, the expertise of our Board, and the professionalism of our staff enabled us to rise to the changes and challenges of 2009. We will carry these strengths forward into 2010 and stand ready to assist Congress and the Commission in implementing what we anticipate will be significant changes to the USF and its programs.

Dr. Brian L. Talbott
Chairman of the Board

D. Scott Barash
Acting Chief Executive Officer

USAC performs a large number of complex tasks every day to collect and disburse USF monies, ensure fund integrity, oversee program accountability, and communicate with stakeholders.

From collecting and validating telecommunications revenue for contributor invoices to calculating and disbursing support payments for each of the four USF programs, USAC must ensure that its operations are accurate and efficient.

USAC issued over 55,000 USF contributor invoices, made over 78,000 disbursements to applicants and service providers, and handled over 120,000 customer calls in 2009. Managing this volume of work requires coordination with the four USF program staffs and program participants to get the precise data needed to make accurate support payments. USAC performs its complex functions cost-effectively — USAC's administrative costs are well below nearly all comparable federal and state agencies as well as non-governmental organizations.

USAC strives for continuous improvement in its operations. In 2009, USAC upgraded the information technology (IT) behind its disbursement systems and implemented additional internal controls to better manage USF collection and disbursement processes. USAC also moved its data centers from an outside vendor to USAC-managed hosting facilities to reduce operating costs and enable USAC to be more responsive to changing business needs.

USAC successfully launched a revised FCC Form 498 in November as part of an ongoing effort with the FCC to make all USF payments by electronic funds transfer. USAC worked closely with the FCC on recommended changes to the form, including adding the collection of study area codes, Dun & Bradstreet numbers, and electronic banking information as well as requiring officer certification on all form revisions. This effort also will improve the accuracy and efficiency of electronic payments through automation.

In 2009, USAC prepared its first assessment of internal controls consistent with Office of Management and Budget requirements. No material weaknesses were identified, and USAC worked diligently to remediate the issues that did arise and increased staff to ensure full performance of all internal control activities.

USAC launched several outreach initiatives in 2009 to remind USF contributors of upcoming quarterly and annual filing deadlines and to inform recipients of USF support of new FCC requirements for providing data. This work included emails to stakeholders, timely updates to USAC's website, and outreach from USAC's customer service staff.

2009 Service Provider Participation

NOTE

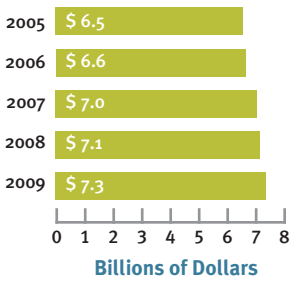
As of December 31, 2009.

* Based on receipt of invoice payment in 2009.

Program	Service Providers
High Cost	1,865 eligible telecommunications carriers
Low Income	1,901 eligible telecommunications carriers
Rural Health Care	544 service providers* (telecom and Internet access)
Schools and Libraries	3,878 service and equipment providers*

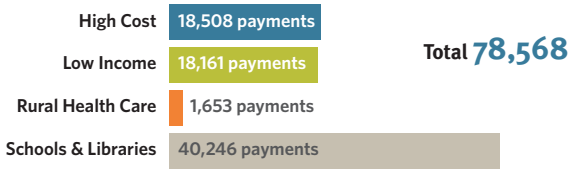
Overall Universal Service Fund (USF) Disbursements

Unaudited



2009 USF Payments by Program

Unaudited



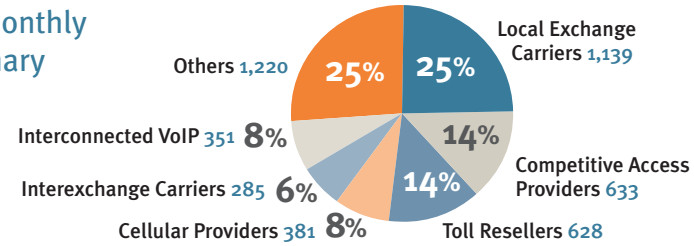
USAC Administrative Expenses

* Unaudited

Calendar Year	Total Expenses	USAC Administrative Expenses	FCC Office of Inspector General USF Audit Expenses	Administrative Cost Percentage
2005	$ $85,190,000	$ 85,190,000	$ 0	1.31%
2006	$ 88,588,000	$ 82,526,000	$ 6,062,000	1.34%
2007	$ 104,684,000	$ 84,623,000	$ 20,061,000	1.51%
2008	$ 172,232,000	$ 91,677,000	$ 80,555,000	2.42%
2009*	$ 187,414,000	$ 100,193,000	$ 87,221,000	2.58%

2009 Average Monthly Invoices by Primary Carrier Type

Unaudited



Total 4,637 Invoices Per Month

USF Contributions Year in Review – In 2009, the USAC Finance Billing Team processed 100% of the approximately 55,000 contributor invoices on time. The chart depicts the approximate 2009 breakdown of monthly invoices by carrier type.

High Cost Program

The High Cost Program ensures that consumers across America have access to affordable telecommunications services. USAC is responsible for data collection and maintenance, support calculations, and disbursements for the five components of High Cost Program support.

In 2009, USAC started and completed a project to bring in-house all High Cost and Low Income Program administrative operations, from data intake to support payments. This in-sourcing effort involved building out hardware infrastructure, deploying enhanced software, conducting extensive testing, and large-scale knowledge transfer from the incumbent vendor to USAC staff.

It also involved transitioning customer service and data entry operations to USAC employees as well as developing a workflow management tool and document repository for information submitted by program participants. The transition was completed in December 2009 on time and under budget. Direct control of program operations will save millions of dollars in contractor expenses, increase efficiency and accuracy of calculations, improve customer service, and allow for better data reporting on program performance metrics.

Alongside the High Cost in-sourcing work, USAC conducted increased training and outreach activities. Training sessions took place in Atlanta, Indianapolis, and Minneapolis, drawing about 150 attendees. Program staff, in conjunction with USAC audit staff, conducted a series of webinars on audit processes and record retention recommendations.

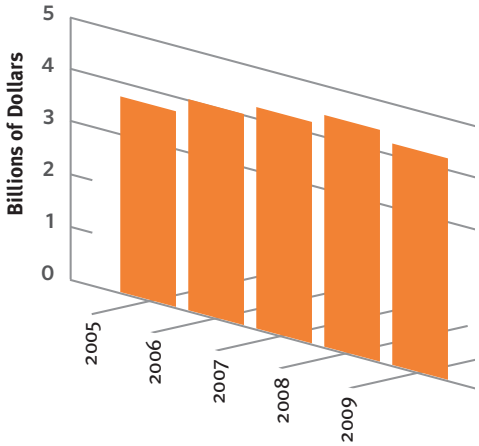
USAC also held a webinar on the online FCC Form 525 that is used by competitive carriers to file line count data. USAC sent program welcome packets to over 300 eligible telecommunications carriers.

A change to High Cost disbursements came from putting into place Interim Support Cap payments to competitive carriers. The FCC mandated the interim cap in 2008. USAC staff implemented the new rule in 2008 and continued to make the required systems changes to accommodate new data and to ensure accurate calculations in 2009. Staff also implemented two FCC orders relating to the cap for Alaska native regions and tribal lands.

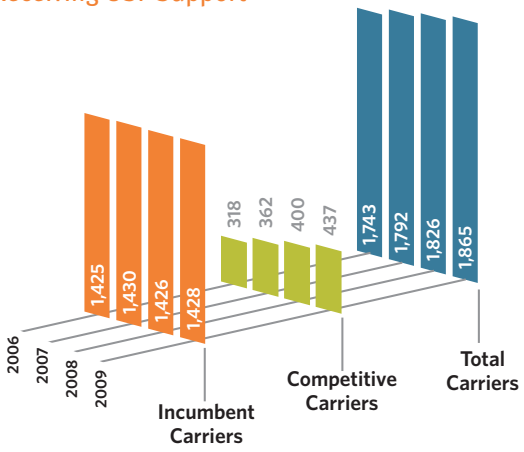
USAC completed the third and final round of the FCC Office of Inspector General (OIG) USF audit program, which consisted of over 770 audits of High Cost Program beneficiaries designed to assess program compliance and estimate improper payment rates. Follow-up work for round one audits conducted after the FCC OIG issued its initial statistical analysis in 2007 demonstrated that the estimated improper payment rate in the High Cost Program was 2.7% and not 16.6% as initially reported by the FCC OIG.

Disbursements by Year

Chart represents unaudited disbursements by Calendar Year, as of December 31, 2009.



Incumbents and Competitors Receiving USF Support

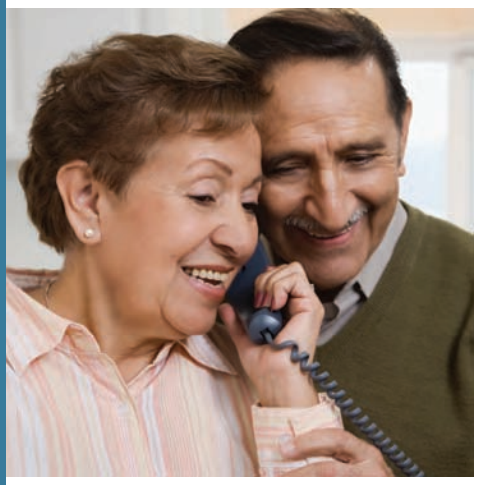


2009 Study Areas by Category

* Competitor count reflects some CETCs that serve in both Rural and Non-Rural Study Areas and are counted separately in each category.

	Incumbent Study Areas						
	Rate-of-Return						
	Cost Companies	Average Schedule	Total	Price Cap	Total Incumbent	Competitive Study Areas*	Total Study Areas
RURAL	724	438	1,162	191	1,353	299	1,652
NON-RURAL	1	1	2	83	85	270	355
TOTAL	725	439	1,164	274	1,438	569	2,007

Low Income Program



The Low Income Program ensures that low-income consumers can initiate and maintain telecommunications services at affordable rates. The three components of the program are Lifeline, Link Up, and Toll Limitation Service (TLS).

Lifeline reduces eligible consumers' monthly charges for basic telephone service. Link Up reduces the cost of initiating new telephone service. TLS support allows eligible consumers to subscribe to toll blocking or toll control at no cost.

Low Income Program staff spent a large part of 2009 bringing program operations and administration in-house, which will reduce operating costs while increasing efficiency. Program staff successfully built out the necessary hardware and software environments for data intake, support calculations, and disbursement validations. During this process, significant knowledge about carrier administration, preparation of Low Income appendices, FCC Form 497 data collection, and the requisite steps for generating projection calculations and disbursements was transferred in-house.

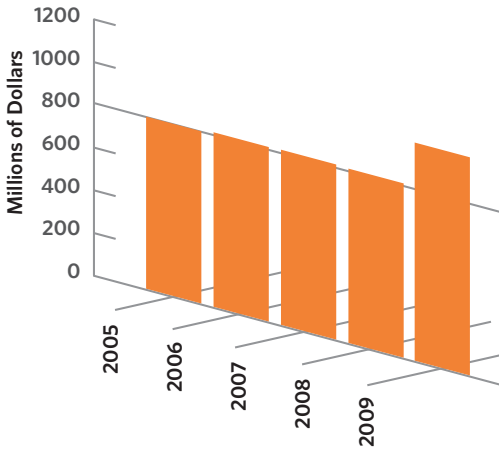
Transferring Low Income Program operations in-house allowed USAC's Customer Operations Team to assume data entry responsibility from the vendor for the approximately 2,200 forms submitted by participating carriers in November 2009, with no significant impact to USAC operations or the customer experience.

Enhancements to program IT capacities included the August launch of the online FCC Form 497, the main form used by USAC to collect carrier data and calculate support. The online form is more efficient for large carriers, has built-in validations to reduce errors, and allows carriers to bulk upload and bulk certify multiple forms. USAC added both application development and system engineering teams to provide production support and to enable future system enhancements for the High Cost and Low Income Programs.

As part of its expanded outreach efforts, and in support of the launch of the online FCC Form 497, Low Income Program staff conducted five webinars, drawing approximately 500 participants. These webinars focused on how to set up users for online access, file individual forms, and use the bulk upload and bulk certify features. Staff also held two audit-related webinars and participated on panels at several professional meetings, all part of a broader effort to present program information in as many ways to as many people as possible.

Disbursements by Year

Chart represents unaudited disbursements by Calendar Year, as of December 31, 2009.



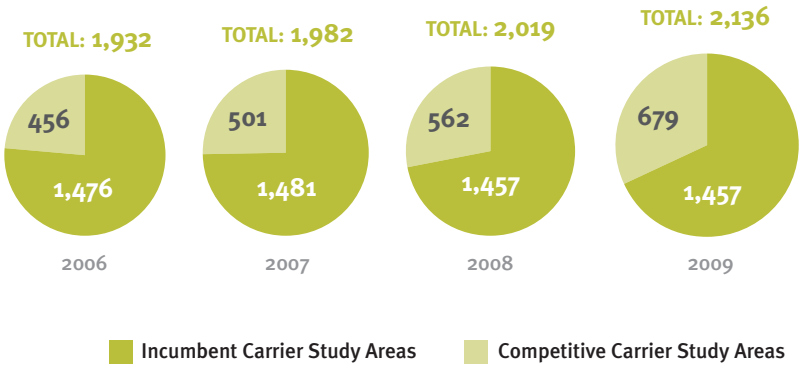
Number of Connections Supported

Number of Connections Supported for the previous quarter is provided due to the Low Income FCC Form 497 filing process (e.g., the 2Q2009 total is for 1Q2009).

Number of Connections Supported	Quarter
3Q2008	6,660,294
4Q2008	6,644,632
1Q2009	7,021,381
2Q2009	7,706,716
3Q2009	8,488,407

Study Areas Receiving Support

Based on USAC quarterly FCC projection filings.



Rural Health Care Program

The Rural Health Care Program ensures that eligible rural health care providers (HCPs) can obtain telecommunications and Internet services used in the provision of healthcare at rates comparable to their urban counterparts. The program supports HCPs' efforts to use electronic communications for health care, increasing access to vital health care and public health services in rural areas.

In 2009, the program reached record-high participation rates for Funding Year 2008 (FY2008). Nearly 3,000 HCPs submitted a record 3,661 application forms describing the services being sought. Once HCPs finished their competitive bidding processes for these services, they filed nearly 7,300 funding requests for the eligible services. This is a four-percent increase in the number of HCPs requesting support over FY2007 and an almost 13% increase in the number of services requested over FY2007. As of December 31, 2009, 3,520 HCPs had submitted applications for FY2009. Of these, 41% are rural health clinics, 31% are hospitals, 11% are local health departments, eight percent are community health centers, eight percent are community mental health centers, and one percent are post-secondary health care educational institutions.

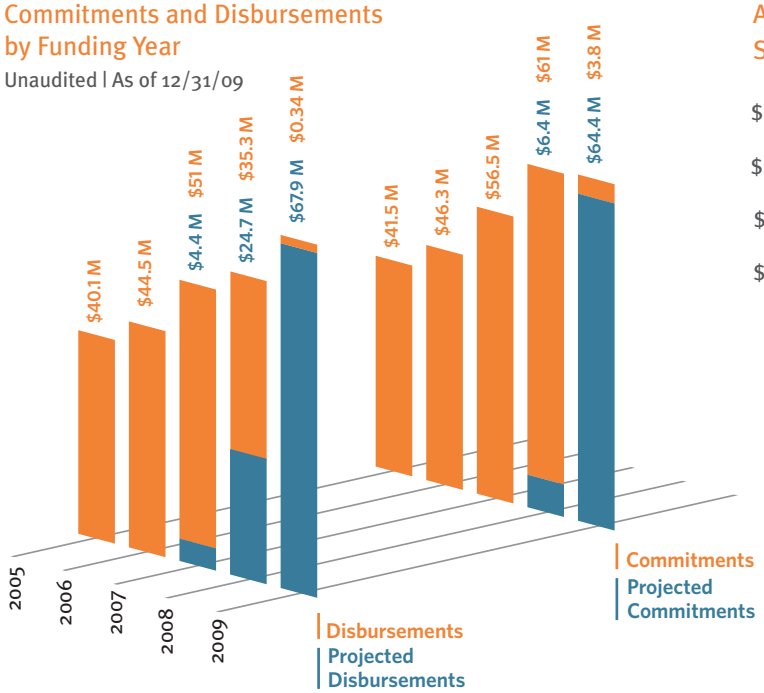
In addition to the primary program, USAC continued administering the FCC's Rural Health Care Pilot Program, which dedicated $418 million for the construction of 62 statewide or regional broadband telehealth networks in 42 states and three U.S. territories. During 2009, USAC posted 41 requests for proposals from 31 pilot projects, issued 53 funding commitments to 17 projects totaling $28.9 million, and disbursed more than $11.5 million.

To manage the increase in applications and disbursements, USAC worked to enhance its information technology (IT) systems and to expand its outreach to program participants. Rural Health Care Program staff worked closely with USAC IT staff to implement a number of system enhancements to increase automation and operational efficiency.

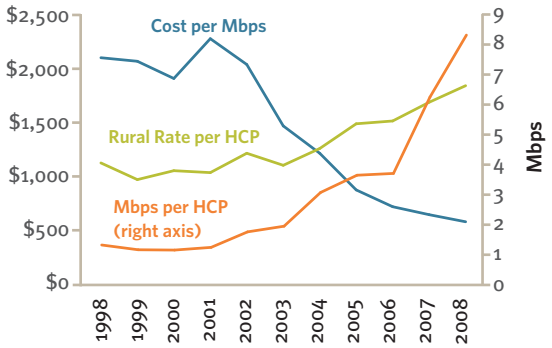
USAC outreach efforts served to educate HCPs about the application process required to receive funding. USAC conducted monthly conference calls for applicants and service providers, focusing on new program rules, forms and procedures, opening of a new funding year, and administrative changes to the application process. An August webinar titled, "Understanding the Application Process," explained how to complete required FCC forms to more than 100 new applicants. USAC directed targeted outreach to HCPs by developing welcome packets for new applicants, automating due date reminders and individual HCP status emails for current applicants, and by reaching out to prior applicants. Rural Health Care staff also presented and staffed booths at national healthcare or telehealth conferences.

Commitments and Disbursements by Funding Year

Unaudited | As of 12/31/09



Average Monthly HCP Service Cost, Support & Bandwith by Funding Year



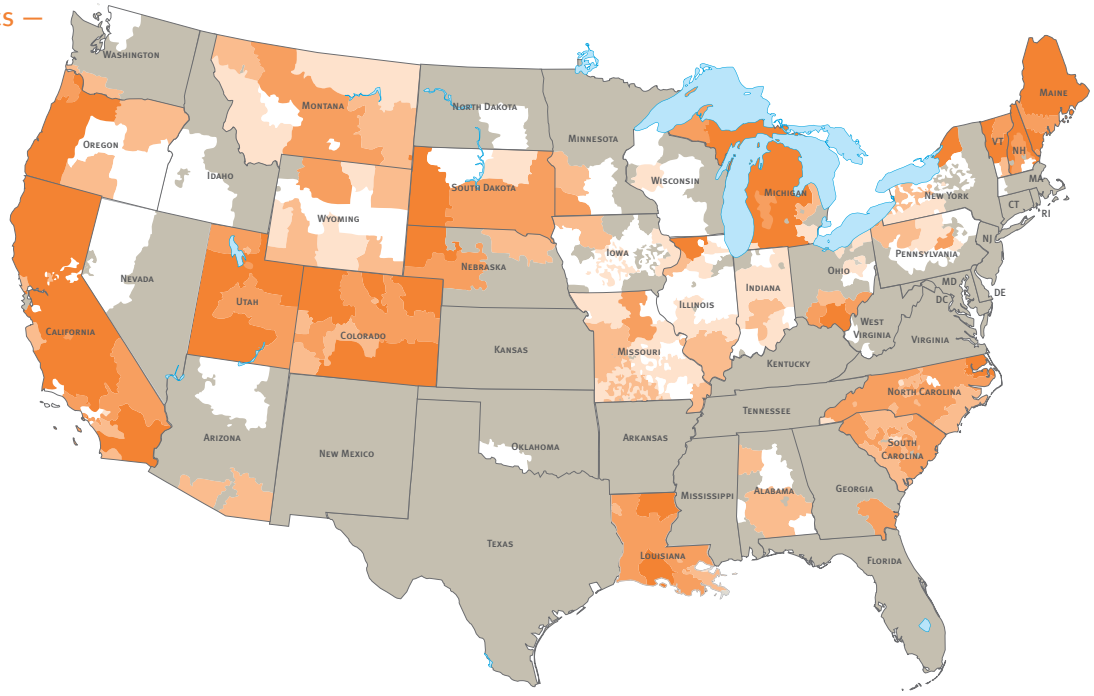
Note: Data is unaudited and represents 17,700 USF funded services. Data excludes Alaska (satellite services), basic telephone, and nine 1 gigabyte services as well as services supported as mileage only or Internet access service requested on FCC Form 466A.

Pilot Program Statistics — HCP Participation

Unaudited | As of 12/31/09

Number of HCPs

- 20 to 91
- 10 to 19
- 5 to 9
- 3 to 4
- 1 to 2



Schools and Libraries Program

The Schools and Libraries Program (often called E-rate) helps to ensure that schools and libraries can obtain telecommunications, Internet access, basic maintenance, and internal connections at affordable rates. Program discounts for support depend on the level of poverty and the urban/rural status of the population served, ranging from 20% to 90% of the costs of eligible products and services.

During the past year USAC focused on many internal and external efforts to better serve applicants and service providers. For example, after months of planning, in September, USAC upgraded the program's IT systems over a two-week period that involved a cutover of the supporting infrastructure from a contractor's data center in New Jersey to a USAC data center. The infrastructure upgrade will enable USAC to bring new features to applicants and service providers in the near future.

In 2009, USAC staff focused on helping applicants successfully complete program forms and requirements using various outreach methods including training sessions, online video tutorials, and the Helping Applicants to Succeed (HATS) visits.

USAC staff held eight one-day training sessions for applicants and two for service providers. Offered across the country, these sessions attracted approximately 1,600 attendees. Applicant sessions featured three tracks, one for beginners, one for advanced participants, and one offering specialized sessions on complex topics. Service provider training offered special guidance on how to comply with program rules. Program staff created and posted six video tutorials covering general information about the program, how to fill out program forms, and how to get help using the website and other tools. In 2009, these tutorials received over 4,000 views, and in 2010 USAC expects to post more tutorials on topics important to stakeholders.

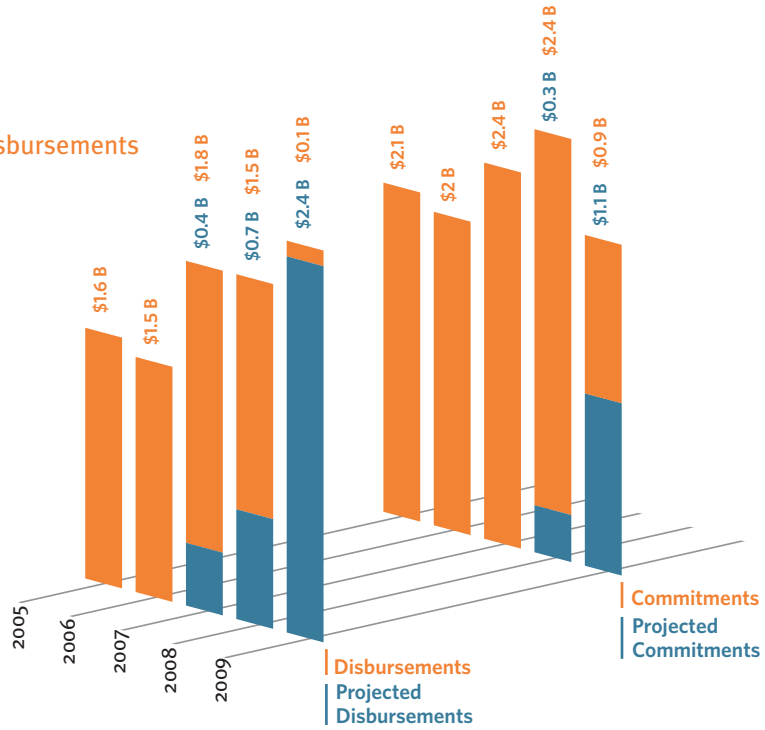
In 2009, the HATS program staff conducted over 125 visits to applicants identified as needing additional help to file a successful application. HATS visits can occur in person, by video conference, or by telephone. This outreach came on top of over 250 telephone calls to remind applicants to file their forms on time.

Increased outreach efforts have resulted in greater compliance with program rules, faster funding decisions to more applicants, and faster processing of invoices. In fact, 2009 saw USAC issue the second-earliest initial wave of funding commitments in program history.

USAC completed the second round and substantially completed the third and final round of the FCC Office of Inspector General (OIG) USF audit program, which consisted of over 600 audits of Schools and Libraries Program beneficiaries to assess program compliance and estimate improper payment rates. Follow-up work for round one audits conducted after the FCC OIG issued its initial statistical analysis in 2007 demonstrated that the estimated improper payment rate in the Schools and Libraries Program dropped from 12.9% to 8.6%, 33% lower than initially reported.

Commitments and Disbursements by Funding Year

Unaudited | As of 12/31/09



Commitments by Applicant Type, FY2009

Unaudited | Funding Year data as of 12/31/2009. Funding Year: July 1, 2009–June 30, 2010.

Type	Applications Funded	Commitments (in thousands)	% of Apps.	% of Total
School/Library Consortium	708	$154,692	2.13%	7.93%
School District	20,065	$1,573,542	60.34%	80.64%
School	8,131	$150,379	24.45%	7.70%
Library/Library Consortium	4,351	$72,757	13.08%	3.73%
TOTAL	**33,255**	**$1,951,370**	**100.00%**	**100.00%**

Application Status by Funding Year

Cumulative Totals

	Submitted	Granted	Rejected
FY 2007	40,960	4,217	33,949
FY 2008	40,661	4,183	33,803
FY 2009 (as of 12/31/09)	41,022	677	33,252

Mission and Structure

The Universal Service Administrative Company (USAC) is an independent, not-for-profit corporation that was created in 1997 to administer the Universal Service Fund (USF). USAC's mission is to collect and distribute USF funds and administer the four universal service support mechanisms – High Cost, Low Income, Rural Health Care, and Schools and Libraries – in accordance with Federal Communications Commission (FCC) rules. USAC does not set or advocate policy. USAC works to protect the integrity of the USF, promote compliance among program participants, and provide information about the USF to Congress, the FCC, program audiences, and the general public. In all these tasks, USAC strives to provide efficient, responsible stewardship of the USF, a key national asset in making important telecommunications services available to consumers, health care providers, schools, and libraries throughout the United States.

FCC regulations governing USAC are found in Part 54 of Title 47 of the Code of Federal Regulations (47 C.F.R. Part 54). These regulations required USAC to establish three program divisions: High Cost and Low Income, Rural Health Care, and Schools and Libraries. The program divisions are supported by additional USAC personnel in External Relations, Finance, General Counsel, Human Resources and Operations, Information Systems, and Internal Audit.

Performance Measures

USAC is required to report quarterly to the FCC on performance measures pursuant to a Memorandum of Understanding signed in September 2008. This information pertains to USAC's administration of the USF and the four USF programs. Below is a selection of performance measures for 2009.

Fund Administration	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
USF Contributor Statistics				
Number of USF contributors	2,882	2,944	2,912	2,867
*Number of delinquent contributors	1,852	1,676	1,493	1,461
**Contributors assessed late fees or penalties	1,175	1,125	1,491	1,281
Average Time To Process Payments (Days)				
High Cost	3	6	5	4
Low Income	29	29	29	29
Rural Health Care (Funding Year 2008)	11	14	12	12
Schools and Libraries (Funding Year 2008)	5.5	6	5.5	11
USAC Complaint Statistics				
Complaints about USAC	22	19	14	25
Complaints about others	18	23	13	37
Total complaints	40	42	27	62
Average number of business days to resolve complaints	1.3	2.4	1.2	1.6

* **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.

High Cost Program	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Total supported lines	135,842,642	135,124,098	132,397,729	129,392,907
Average support dollars/line	$8.10	$8.88	$8.97	$9.36
Median support dollars/line	$1.05	$1.21	$1.21	$1.22

Low Income Program	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Median dollars disbursed per ETC	$890	$953	$913	$891

Rural Health Care Program	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Application Types (all numbers cumulative for funding year)				
Funding Year 2009				
Telecom	n/a	189	812	1,674
Internet	n/a	41	318	654
Funding Year 2008				
Telecom	2,663	5,390	5,424	5,458
Internet	834	1,480	1,486	1,487
Application Outcomes (all numbers cumulative for funding year)				
Funding Year 2009				
Received	n/a	230	1,130	2,328
Granted	n/a	0	0	678
Rejected	n/a	0	3	45
Funding Year 2008				
Received	3,497	6,870	6,910	6,945
Granted	461	2,225	4,680	6,019
Rejected	63	251	433	562
Invoices Funding Year 2008 (all numbers cumulative for funding year)				
Invoices received	14	157	557	904
Invoiced paid	9	119	523	938
Invoices rejected	0	8	14	24
Appeals				
Current appeals (new appeals received in each quarter)	5	10	12	9
Average calendar days to resolve appeals	231	32	56	72

Schools and Libraries Program	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Application Outcomes (all numbers cumulative for funding year)				
Funding Year 2009				
Submitted	40,930	40,990	41,016	41,022
Granted	n/a	19,553	26,439	33,252
Rejected	n/a	118	260	677
Funding Year 2008				
Submitted	40,657	40,660	40,660	40,661
Granted	33,098	33,510	33,603	33,803
Rejected	4,079	4,154	4,164	4,183
Invoices Funding Year 2008 (all numbers cumulative for funding year)				
Invoices received	171,782	273,239	366,919	440,194
Invoiced paid	151,165	244,894	323,231	384,285
Invoices denied	12,110	15,736	20,689	35,431
Appeals				
Current appeals (new appeals received in each quarter)	266	316	338	247
Average calendar days to resolve appeals	118	109	49	78

Systems, Controls, and Legal Compliance

In 2008, USAC implemented a formalized internal control structure and review process consistent with the guidance in Office of Management and Budget (OMB) Circular A-123 titled "Management's Responsibility for Internal Control," including Appendix A (Implementation Plans). In 2009, to enhance USAC's overall internal control framework, USAC expanded the staffing responsible for documenting and testing internal controls throughout the company. No material weaknesses were identified during the 2008 or the 2009 internal control assessments. In addition to management's annual internal control assessments, USAC contracts with an independent audit firm to perform an annual audit of its financial statements as well as agreed-upon procedures in compliance with the requirements in 47 C.F.R. Part 54. The FCC's auditors also audit the USF as part of the annual FCC financial audit.

USAC's current financial management system is a widely used and commercially accepted accounting system. The 2009 audit of the FCC's financial statements determined that the Federal Managers Financial Integrity Act of 1982 applies to the FCC's reporting components (e.g., USAC as the administrator of the USF) and that USAC's financial systems do not achieve the federal financial system integration standards as determined by OMB. Although USAC's financial systems are not currently compliant with OMB standards, USAC has compensating controls in place to ensure all financial data is accurate and meets the requirements of the FCC. We are actively working with the FCC to finalize a request for proposals to obtain and implement a fully compliant financial management system.

Future Effects

Please see the Notes to the Independent Auditors Report beginning on page 25 for a full discussion of currently known demands, risks, and conditions related to USAC and the USF.

Financial Information

The accompanying USAC unaudited financial statements and tables are the responsibility of USAC management and reflect all necessary adjustments and reclassifications that are necessary for fair presentation of the period presented. The results for the year ended December 31, 2009 are not considered final until the 2009 financial statements 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, 2008 and 2007, included herein.

The table on the right presents selected data about USAC's staffing and operations for 2009 and 2008.

Item	2009	2008
Number of employees	243	194
Personnel costs	$ 24,016,000	$ 21,196,000
Overall general and administrative expenses	$ 107,785,000	$ 99,832,000
Contract expenses	$ 50,699,000	$ 48,507,000

Note: Table excludes depreciation, amortization, and loss on retirements.

The staffing increase over the past year was driven by increases in information technology and support mechanism personnel, due in large part to the in-sourcing of the High Cost and Low Income support mechanisms from an outside vendor. Accordingly, personnel costs, which include wages, employee benefits, and corporate payroll taxes, increased over the past year as well.

Overall general and administrative expenses increased because of costs associated with implementing the large-scale FCC Office of Inspector General USF audit program.

Contract expense increases were a result of higher costs related to systems analysis, routine upgrades, and database administration over the past year.

2009 USAC Contractors

Contractor/Vendor	Type of Goods/Services	Procurement Method
Solix, Inc.	RHC-SL Operational Support Services	Competitive bid
KPMG LLP	FCC OIG USF Audits	Competitive bid
Ernst & Young LLP	FCC OIG USF Audits	Competitive bid
Grant Thornton LLP	FCC OIG USF Audits	Competitive bid
Science Applications International Corp.	RHC-SL Information Technology Support Services	Competitive bid
Telcordia Technologies, Inc.	High Cost / Low Income Support Services	Competitive bid
Deloitte & Touche LLP	FCC OIG USF Audits	Competitive bid
Moss Adams LLP	FCC OIG USF Audits	Competitive bid
Clifton Gunderson LLP	FCC OIG USF Audits	Competitive bid
Thompson, Cobb, Bazillio & Associates, Inc.	FCC OIG USF Audits	Competitive bid
The Guardian Life Insurance Company of America	Employee benefits	Competitive bid
Cotton & Company LLP	FCC OIG USF Audits	Competitive bid
Brookfield Properties Corp.	Office lease for 2009	Competitive bid
Washington Consulting, Inc.	FCC OIG USF Audits Program Management	Competitive bid
McBride, Lock & Associates	FCC OIG USF Audits	Competitive bid
PricewaterhouseCoopers LLP	2008 Financial Statements Audit and Agreed Upon Procedures (AUP) Review	Competitive bid

Dollar Range: + $25 million $5 million - $20 million $1 million - $5 million

Note: This table presents expenditures USAC made during calendar year 2009.

Statement of Financial Position of USAC

As of December 31, 2009 | *Unaudited (In thousands)*

	2009
ASSETS	
Current Assets	
Cash	$ 12,891
Prepaid expenses and other current assets	729
Assets held for the Federal USF	6,198,497
Total Current Assets	6,212,117
Fixed Assets, less accumulated depreciation and amortization of $12,554	16,460
Other Assets	120
Total	$ 6,228,697
LIABILITIES AND UNRESTRICTED NET ASSETS	
Current Liabilities	
Accounts payable and accrued expenses	$ 14,718
Payable to the Federal USF	15,482
Liabilities related to assets held for the Federal USF	6,198,497
Total Current Liabilities	6,228,697
Net Assets	–
Total	$ 6,228,697

See notes to financial statements.

Statement of Operations and Change in Unrestricted Net Assets of USAC

For the Year Ended December 31, 2009 | *Unaudited (In thousands)*

	2009
Revenue, primarily contract revenue	$ 187,414
Operating Expenses	
Contractual Expenses	50,699
Personnel and related expense	24,016
General and administrative	107,785
Depreciation, amortization and loss on retirements	4,914
Total Operating Expenses	187,414
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, 2009 | *Unaudited (In thousands)*

	2009
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from the Federal USF and other vendors	$ 196,609
Cash paid for operating expenses and employees	(191,891)
Net cash provided by operating activities	4,718
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures	(7,007)
Increase in Cash and Cash Equivalents	(2,289)
Cash and Cash Equivalents – Beginning of year	15,180
Cash and Cash Equivalents – End of year	$ 12,891
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	$ –
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	4,811
Loss on retirement of fixed assets	105
Changes in operating assets and liabilities:	
Increase in prepaid expense and current assets	(383)
Decrease in other assets	–
Increase in assets held for the Federal USF	(122,913)
Increase in payable to the Federal USF	9,577
Increase in accounts payable and accrued expenses	(9,392)
Increase in liabilities related to assets held for the Federal USF	122,913
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 4,718

Combining Supplemental Schedule of Assets and Liabilities

Applicable to the Federal USF for the Year Ended December 31, 2009 | *Unaudited (In thousands)*

	Schools & Libraries	High Cost	Low Income	Rural Health Care	Total USF
ASSETS					
Cash & cash equivalents	$ (515,556)	$ 130,853	$ 16,617	$ 397,806	$ 29,720
Investments	5,460,179	–	–	–	5,460,179
Receivables	376,892	465,915	125,022	15,288	983,117
Allowance for doubtful accounts	(136,674)	(116,797)	(21,553)	(2,594)	(277,618)
Other assets	–	–	–	–	–
Interest receivable	3,173	(71)	295	(298)	3,099
Assets held for the Federal USF	5,188,014	479,900	120,381	410,202	6,198,497
Receivable from USAC	(59,257)	61,407	18,079	(4,404)	15,825
Total	$ 5,128,757	$ 541,307	$ 138,460	$ 405,798	$ 6,214,322
LIABILITIES					
Payable to service providers	$ 14,490	$ 6,419	$ 561	$ 12	$ 21,482
Payable to contributors	13,348	23,450	6,949	1,204	44,951
Accrued liabilities	–	388,317	100,797	–	489,114
Unearned revenue	3	4	1	–	8
Total	$ 27,841	$ 418,190	$ 108,308	$ 1,216	$ 555,555

Note: This schedule reflects the assets and liabilities of the Federal USF at December 31, 2009 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, 2009 | *Unaudited (In thousands)*

	Schools & Libraries	High Cost	Low Income	Rural Health Care	Total USF
ADDITIONS					
Amounts billed to contributors	$ 2,121,480	$ 4,072,749	$ 903,729	$ 204,658	$ 7,302,616
Interest income	27,725	1,870	680	1,930	32,205
Total Additions	2,149,205	4,074,619	904,409	206,588	7,334,821
DEDUCTIONS					
Amount paid and due to service providers	1,891,516	4,276,300	1,029,393	72,692	7,269,901
Allowance for doubtful accounts	(7,477)	1,880	132	113	(5,352)
Operating expenses	121,123	57,471	3,565	8,336	190,495
Unrealized/realized gain or loss	(1,043)	–	–	–	(1,043)
Total Deductions	2,004,119	4,335,651	1,033,090	81,141	7,454,001
CHANGES IN NET ASSETS	$ 145,086	$ (261,032)	$ (128,681)	$ 125,447	$ (119,180)

Note: This schedule reflects the changes in net assets of the Federal USF for the year ended December 31, 2009 for each of the support programs.

Combining Supplemental Schedule of Cash Flows

Applicable to the Federal USF for the Year Ended December 31, 2009 | *Unaudited (In thousands)*

	Schools & Libraries	High Cost	Low Income	Rural Health Care	Total USF
Cash Flows from Operating Activities					
Cash received from contributors	$ 2,128,738	$ 4,137,958	$ 870,681	$ 205,455	$ 7,342,832
Interest received	43,014	1,882	706	1,956	47,558
Cash paid to service providers	(1,892,902)	(4,295,018)	(993,432)	(71,730)	(7,253,082)
Cash paid for administrative costs	(76,781)	(95,881)	(17,358)	(6,700)	(196,720)
Net cash provided by (used in) operating activities	202,069	(251,059)	(139,403)	128,981	(59,412)
Cash Flows from Investing Activities					
Redemption of investments	11,110,470	–	–	–	11,110,470
Purchase of investments	(11,074,748)	–	–	–	(11,074,748)
Net cash used in investing activities	35,722	–	–	–	35,722
Increase (Decrease) in Cash Equivalents	237,792	(251,059)	(139,403)	128,981	(23,690)
Cash and Cash Equivalents					
Beginning of year	(751,774)	432,856	107,653	264,675	53,410
End of year	$ (513,983)	$ 181,797	$ (31,750)	$ 393,656	$ 29,720
Reconciliation of Changes in Net Assets Provided by (used in) Cash from Operating Activities					
Changes in net assets	$ 145,086	$ (261,032)	$ (128,681)	$ 125,447	$ (119,180)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:					
Bad debt expense	(7,477)	1,880	132	113	(5,352)
Amortized discount	14,843	–	–	–	14,843
Unrealized/realized gain or loss	(1,043)	–	–	–	(1,043)
Changes in operating assets and liabilities:					
Decrease (increase) in interest receivable	446	12	26	26	510
Decrease (increase) in accounts receivable	7,256	65,208	(33,048)	797	40,213
Decrease (increase) in receivable from USAC	44,342	(38,410)	(13,793)	1,635	(6,226)
Increase (decrease) in liabilities	(1,384)	(18,717)	35,961	963	16,823
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 202,069	$ (251,059)	$ (139,403)	$ 128,981	$ (59,412)

Note: This schedule reflects the cash flows of the Federal USF for the year ended December 31, 2009 for each of the support programs.

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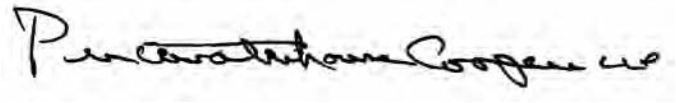
Report of Independent Auditors

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") at December 31, 2008 and December 31, 2007, and the change in its net assets and its cash flows for the years 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 audits. We conducted our audits 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 the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have also issued our report dated June 15, 2009 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, 2008. 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.



June 15, 2009

Statements of Financial Position

As of December 31, 2008 and 2007 | *(In thousands)*

	2008	2007
ASSETS		
Current Assets		
Cash	$ 15,180	$ 4,687
Prepaid expenses and other current assets	346	151
Assets held for the Federal USF	6,321,410	5,725,929
Total Current Assets	6,336,936	5,730,767
Fixed Assets, less accumulated depreciation and amortization of $8,041 and $5,437	14,369	6,930
Other Assets	120	122
Total	$ 6,351,425	$ 5,737,819
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$ 24,110	$ 5,991
Payable to Federal USF	5,905	5,899
Liabilities related to assets held for the Federal USF	6,321,410	5,725,929
Total Current Liabilities	6,351,425	5,737,819
Net Assets	–	–
Total	$ 6,351,425	$ 5,737,819

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

Statements of Operations and Change in Unrestricted Net Assets

For the Years Ended December 31, 2008 and 2007 | *(In thousands)*

	2008	2007
Revenue, primarily contract revenue	$ 172,232	$ 104,684
Operating Expenses		
Contractual Expenses	48,507	47,468
Personnel and related expenses	21,196	18,017
General and administrative	99,832	36,624
Depreciation, amortization and loss on retirements	2,697	2,575
Total Operating Expenses	172,232	104,684
Change in Net Assets	–	–
Net Assets – Beginning of year	–	–
Net Assets – End of year	$ –	$ –

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

Statements of Cash Flows

For the Years Ended December 31, 2008 and 2007 | *(In thousands)*

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from the Federal USF and other vendors	$ 171,965	$ 104,199
Cash paid for operating expenses and employees	(151,416)	(100,816)
Interest received	80	336
Net cash provided by operating activities	20,629	3,719
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(10,136)	(5,299)
Increase in Cash and Cash Equivalents	10,493	(1,580)
Cash and Cash Equivalents – Beginning of year	4,687	6,267
Cash and Cash Equivalents – End of year	$ 15,180	$ 4,687
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	$ –	$ –
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,683	2,190
Loss on retirement of fixed assets	14	385
Changes in operating assets and liabilities:		
Increase in prepaid expense and current assets	(195)	(91)
Decrease in other assets	2	–
Increase in assets held for the Federal USF	(595,481)	(400,140)
(Decrease) increase in payable to the Federal USF	6	(58)
Increase in accounts payable and accrued expenses	18,119	1,293
Increase in liabilities related to assets held for the Federal USF	595,481	400,140
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 20,629	$ 3,719

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

Notes to Financial Statements As of and for the Years Ended December 31, 2008 and 2007

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 financial statements of the Universal Service Administrative Company have been prepared on the accrual basis of accounting.

The accompanying financial statements have been prepared on the accrual basis of accounting, in conformity with the accounting principles generally accepted in the United States of America. 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, 2008 and 2007, the expense recognized for services rendered by NECA were $568,948 and $539,550, respectively, and for the same periods, the expense recognized for services rendered by Solix were $42.5 million and $43.9 million, respectively. These expenses are included in the contractual expenses in the accompanying Statements of Operations and Changes in Unrestricted Net Assets. At December 31, 2008 and 2007, 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 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 improvements, computer hardware and software. These assets 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. Depreciation and amortization of hardware and 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 American Institute of Certified Public Accountants' ("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. 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, 2008 and 2007 are as follows:

(in thousands)	December 31 2008	2007
Fixed Assets		
Office furniture	$ 1,920	$ 1,913
Office equipment	451	451
Computer hardware	2,518	2,381
Computer software	7,624	4,991
Leasehold improvements	558	558
Projects in progress	9,339	2,073
Total Fixed Assets	22,410	12,367
Less accumulated depreciation & amortization	(8,041)	(5,437)
Net Fixed Assets	$ 14,369	$ 6,930

Depreciation and amortization expense was $2,682,758 and $2,190,622 for the years ended December 31, 2008 and 2007, respectively.

5. ASSETS AND LIABILITIES RELATED TO ASSETS HELD FOR THE FEDERAL USF

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 below provides additional detail with respect to these amounts.

	December 31	
(in thousands)	**2008**	**2007**
Cash and cash equivalents	$ 53,410	$ 87,271
Investments	5,524,643	4,921,665
Receivables	1,022,719	987,106
Allowance for doubtful accounts	(282,971)	(278,136)
Interest receivable	3,609	8,023
TOTAL ASSETS HELD FOR THE FEDERAL USF	$ 6,321,410	$ 5,725,929

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 and also accounts for investments at fair market value in accordance with SFAS No. 157, Fair Value Measurements. At December 31, 2008, there were $5.50 billion in short-term investments. There were $4.92 billion in short-term investments at December 31, 2007.

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. 157. Long-term investments consist primarily of United States Treasury debt securities with readily determinable fair values. At December 31, 2008 and 2007, the USF had $25.4 million and $0 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.

In 2008, USAC, in compliance with FCC Order 07-150, adopted August 22, 2007, initiated the process of assessing interest and penalties on all receivables over 30 days delinquent and receivables transferred to the FCC for collection.

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.

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

6. FAIR VALUE OF FINANCIAL INSTRUMENTS INCOME TAXES

Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States requiring use of fair value. This standard

establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

As a basis for considering assumptions, SFAS 157 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

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

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

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

USAC adopted SFAS 157 as of January 1, 2008, for financial assets and liabilities. USAC utilizes the best information available in measuring fair value and financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

The following table summarizes the valuation of the investments according to the SFAS 157 classifications:

(in thousands)		US Treasuries
	Total	$ 5,524,643
Active Market for Identical Assets	(Level 1)	$ 5,524,643
Observable Inputs	(Level 2)	$ –
Observable Inputs	(Level 3)	$ –

7. INCOME TAXES

USAC is a not-for-profit organization subject to income taxes related to permanent and temporary differences such as meals and entertainment expense and financial accounting versus tax depreciation. Income taxes for 2008 and 2007 are not material and are included as a component of administrative costs.

8. 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. In early 2008, USAC notified LaSalle that it would exercise the third one-year renewal and on May 9, 2008, signed an amendment to the contract extending the expiration to 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. Bank of America acquired LaSalle Bank effective October 17, 2008.

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 executed a partial contract extension through June 30, 2009 for the Schools and Libraries and Rural Health Care operational support services. 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, 2009 through June 30, 2009, under the Agreement for both the Schools and Libraries and Rural Health Care programs, totals $10.5 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. On September 3, 2008, USAC notified Telcordia of its intention to exercise the one year renewal option. 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):

2009	$ 3,930

SAIC Agreement—On January 2, 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 1, 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 1, 2009 through December 31, 2009, under the SAIC Agreement are $5.6 million.

Lease Commitments—USAC leases its office space under two operating lease agreements expiring on September 30, 2015. At December 31, 2008, the future minimal rental payments under these leases are as follows (in thousands):

2009	1,631
2010	1,669
2011	1,705
2012	1,733
2013	1,773
Thereafter	3,201
TOTAL	$ 11,712

Rent expense under operating leases was $1.8 million and $1.7 million for the years ended December 31, 2008 and 2007, respectively.

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. 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 entered into an agreement settling this dispute on May 5, 2008 and the matter is now closed.

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 sought to avoid and recover from USAC alleged preferential pre-petition payments totaling $11.3 million. USAC and the plaintiff entered into an agreement settling this dispute on August 28, 2008 and the matter is now closed. As part of the settlement, USAC made a payment to the trustee in an amount substantially less than the threshold set forth above.

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. The court denied USAC's motion to dismiss the complaint. The parties are now engaged in discovery. 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. Shortly after its bankruptcy filing, the contributor informed USAC that it intended to submit revised revenue information that will substantially reduce USAC's administrative claims. Subsequently, the contributor filed revised forms that reduced its post-petition administrative charges to an amount below the $450,000 threshold set forth above.

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. On September 22, 2008, the United States District Court for the Southern District of Texas dismissed the plaintiff's claim with prejudice. The plaintiff appealed the district court's decision to the Unites States Court of Appeals for the Fifth Circuit. The parties are in the process of preparing and submitting briefs to the court. 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. On June 6, 2008, the United States District Court for the Southern District of Kentucky dismissed the plaintiff's complaint. The plaintiff is also pursuing this matter through the administrative appeals process at the Federal Communications Commission. 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.

9. 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 $1.6 million and $1.4 million during 2008 and 2007, respectively.

10. SUBSEQUENT EVENTS

Solix Agreement – On December 12, 2007, USAC executed a partial contract extension through June 30, 2009 for the Schools and Libraries and Rural Health Care operational support services. In February 2009, USAC signed a modification of the current partial contract extension with NECA. On June 9, 2009, USAC signed a modification of the contract extension with NECA. Under the modified agreement, Solix, Inc. provides programmatic support service and operational support transition assistance for the Schools and Libraries and Rural Health Care Programs. The future contractual required payments for the period July 1, 2009 through June 30, 2010, under the modified agreement are $43,187,355. USAC has the option to extend the contract up to one additional year or until June 30, 2011.

Bank of America Agreement – On June 22, 2009, USAC entered into a four year agreement with Bank of America for banking services. Bank of America will provide banking and investment management services for a fixed annual contractual amount that may be satisfied by funds derived by Bank of America from investment of balances maintained in demand deposit accounts.

Combining Supplemental Schedules of Assets and Liabilities

Applicable to the Federal USF as of December 31, 2008 and 2007 | *Unaudited (In thousands)*

2008	Schools & Libraries	High Cost	Low Income	Rural Health Care	Total USF
ASSETS					
Cash & cash equivalents	$ (756,002)	$ 385,251	$ 156,637	$ 267,524	$ 53,410
Investments	5,524,643	0	0	0	5,524,643
Receivables	383,680	531,009	91,951	16,079	1,022,719
Allowance for doubtful accounts	(146,696)	(112,884)	(21,010)	(2,381)	(282,971)
Other assets	0	0	0	0	0
Interest receivable	3,619	(59)	321	(272)	3,609
Assets held for the Federal USF	5,009,244	803,317	227,899	280,950	6,321,410
Receivable from USAC	(14,915)	22,997	4,286	(2,768)	9,600
Total	4,994,329	826,314	232,185	278,182	6,331,010
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	0	0	0	0	0
Accrued liabilities	0	421,047	67,168	0	488,215
Unearned revenue	2	4	1	0	7
Total	$ 29,225	$ 436,907	$ 72,347	$ 253	$ 538,732

2007	Schools & Libraries	High Cost	Low Income	Rural Health Care	Total USF
ASSETS					
Cash & cash equivalents	$ (560,288)	$ 428,066	$ 85,679	$ 133,814	$ 87,271
Investments	4,921,665	0	0	0	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	0	0	0	0	0
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	0	0	0	0	0
Accrued liabilities	0	373,085	67,049	0	440,134
Unearned revenue	0	0	0	0	0
Total	$ 30,212	$ 395,608	$ 72,464	$ 367	$ 498,651

Note: This schedule reflects the assets and liabilities of the Federal USF at December 31, 2008 and 2007, 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, 2008 and 2007 | *Unaudited (In thousands)*

2008	Schools & Libraries	High Cost	Low Income	Rural Health Care	Total USF
ADDITIONS					
Amounts billed to contributors	$ 2,195,211	$ 4,526,919	$ 832,775	$ 188,747	$ 7,743,652
Interest income	107,778	10,006	4,032	4,748	126,563
Total Additions	2,302,989	4,536,925	836,807	193,495	7,870,215
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	8,788	(2,269)	(1,907)	225	4,837
Operating expenses	113,868	46,925	1,243	6,280	168,314
Unrealized/realized gain or loss	(16,489)	0	0	0	(16,489)
Non-expenditure financing (FCC transfer)	6,198	12,613	2,294	376	21,480
Total Deductions	1,866,047	4,562,247	821,140	55,691	7,305,125
CHANGES IN NET ASSETS	$ 436,942	$ (25,322)	$ 15,667	$ 137,804	$ 565,089

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)	0	0	0	(7,234)
Non-expenditure financing (FCC transfer)	0	0	0	0	0
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

Note: This schedule reflects the changes in net assets of the Federal USF for the years ended December 31, 2008 and 2007, for each of the support programs.

Combining Supplemental Schedules of Cash Flows

Applicable to the Federal USF for the Year Ended December 31, 2008 | *Unaudited (In thousands)*

2008	Schools & Libraries	High Cost	Low Income	Rural Health Care	Total
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	154,467
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)	(172,015)
Non-expenditure financing (FCC transfer)	(6,198)	(12,613)	(2,294)	(376)	(21,480)
Net cash provided by (used in) operating activities	424,482	4,790	21,975	130,861	582,106
Cash Flows from Investing Activities					
Redemption of investments	11,016,273	0	0	0	11,016,273
Purchase of investments	(11,632,241)	0	0	0	(11,632,241)
Net cash used in investing activities	(615,968)	0	0	0	(615,968)
Increase (Decrease) in Cash Equivalents	(191,486)	4,790	21,975	130,861	(33,862)
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					
Change in net assets	$ 436,941	$ (25,322)	$ 15,667	$ 137,804	$ 565,089
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:					
Bad debt expense	8,859	(2,283)	(1,906)	165	4,835
Amortized discount	23,490	0	0	0	23,490
Unrealized/realized gain or loss	(16,489)	0	0	0	(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	(27,692)	(10,269)	8,795	(6,447)	(35,613)
Decrease (increase) in receivable from USAC	(3,403)	1,026	(603)	(721)	(3,701)
Decrease (increase) in other assets	0	0	0	0	0
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	$ 130,861	$ 582,106

Note: This schedule reflects the cash flows of the Federal USF for the years ended December 31, 2008 and 2007, 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
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)
Non-expenditure financing (FCC transfer)	0	0	0	0	0
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	0	0	0	9,398,862
Purchase of investments	(9,784,824)	0	0	0	(9,784,824)
Net cash used in investing activities	(385,962)	0	0	0	(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					
Change 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	0	0	0	8,564
Unrealized/realized gain or loss	(7,234)	0	0	0	(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	0	0	0	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, 2008 and 2007, for each of the support programs.

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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 31,2008, and have issued our report thereon dated June 15, 2009. 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 deficiencies described below to be significant deficiencies in internal controls over financial reporting.

Observation 1

During the audit we noted approximately $1.1 million of expenditures relating to fiscal year 2008 for which the Company was not invoiced until after year end. Management did not record the expense and accrued liability for these services in 2008. The current year end process requires management to survey individual program managers requesting their estimate of 2008 services they expect to be billed for subsequent to year end. The Finance Department records liabilities based on the program managers' responses. It was noted that although management followed their process, they failed to record the expense and associated liability for the amount above.

In 2008 there were changing job responsibilities within the Finance Department. As a result there appeared to be a lack of clarity over which invoices had been accrued.

Recommendation

We recommend the Company enhance its year-end closing procedures to ensure that all expenditures are recorded in the appropriate accounting period and that estimates provided to the Finance Department for services provided that will be billed for subsequent to year end are reasonable. The Company should consider the following:

1. Obtain supporting evidence for all estimates provided to the Finance Department and assess the reasonableness of those estimates.

2. Develop a formalized procedure to assess completeness of the accrued liabilities.

Observation 2

During the audit we noted approximately $730 thousand for the last pay period of 2008 was not accrued at December 31, 2008. The accrual was appropriately recorded in December 2008 but then reversed before the end of the fiscal year resulting in the under accrual. In addition, the accrued vacation liability had not been updated for unused vacation days as of the end of the fiscal year. As a result, the accrued vacation liability was over accrued by $149 thousand.

These issues appear to be the result of the changing job responsibilities within the Finance Department during fiscal year 2008, as well as a lack of compliance with existing procedures to review account balances for reasonableness. As a result, accrued wages were understated and accrued vacation was overstated.

Recommendation

We recommend the Company follow its month end and year-end closing procedures and ensure that standard recurring entries are recorded and reviewed. The Company should consider the following:

3. Enhancing existing procedures to include a more detailed review to ensure all standard recurring entries are being recorded and updated.

Observation 3

During the audit we noted instances where monthly reconciliations of key balance sheet accounts were reviewed and approved with material variances noted between the general ledger and the sub-ledger. The balance sheet accounts were as follows:

USAC Cash – Variance of $116 thousand identified in December reconciliation. No audit adjustment was recorded as the variance was only on the reconciliation.

USF Accounts receivable – Credit balance of $244 thousand was identified in December Payment Plan receivable sub-ledger, variance of $351 thousand was identified between general ledger and sub-ledger. Audit adjustments were recorded to correct.

USAC Fixed assets – Variance of $6.7 million identified in September reconciliation. No audit adjustment was needed to be recorded as the variance was only on the reconciliation.

USAC Accounts payable – Debit balance of $490 thousand identified in December reconciliation. Audit adjustment was recorded to correct.

No explanations were evident explaining the material variances. In addition, several general ledger accounts were identified at year end with incorrect ending debit or credit balance classification. As a result, various audit adjustments were identified to reclassify accounts.

Failure to perform a robust review of all balance sheet and income statement accounts can result in undetected errors during the closing process, and increases the potential of errors in the financial statements.

Recommendation

We recommend that management enhance their review of balance sheet and income statement accounts on a monthly basis. This review should include the following:

4. Ensuring all book balances agree to the general ledger and sub-ledger

5. Properly resolve any identified reconciling items on a timely basis and provide sufficient explanations for variances that have been identified

6. Ensuring all components of the reconciliation can be supported and retaining relevant support with the reconciliation

7. Ensuring all significant transactions have been included and are appropriately accounted for.

8. Ensuring all general ledger asset and liability accounts have the appropriate ending debit/credit balance based on the accounts characteristics.

9. Ensuring closing schedule checklist includes all relevant and key steps of the closing process and is finalized after all procedures have been completed and reviewed.

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 did not identify a control deficiency that could be considered to be a material weakness in internal controls over financial reporting.

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.

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 assurance on this report.

We noted certain other matters that we reported to management of the Company in a separate letter.

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.

June 15, 2009

August 27, 2009

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 2008 Independent Auditor's Reports on Internal Control over Financial Reporting reported significant deficiencies in the internal controls over the financial statement process. USAC Management response is included below.

Significant Deficiencies

1) Enhance Policies and Procedures over Completeness of Accrued Liabilities

USAC Management Response

Management concurs with the finding. In 2009, USAC has made substantial progress in addressing the year-end unrecorded liability process. For example, to ensure that year-end estimates of expenditures are reasonable and recorded in the appropriate accounting period, we have established a comprehensive policy and procedure for reporting accrued liabilities that includes vendor confirmation of unbilled services and when the services were performed. Supporting documentation received from the vendors will be tested for reasonableness by examining contract terms and prior period expenses. In the event vendors do not provide confirmation of unbilled services, a calculated estimate of the accrual will be determined based on the contract period and remaining contract cost. To further reinforce and improve the financial reporting process, USAC procedures will require a quarterly estimate of accrued liabilities.

2) Enhance Review of Standard Recurring Entries

USAC Management Response

We agree with the auditors' comments and, in accordance with the auditor's recommendations, management has implemented appropriate corrective action to provide for a more stringent review process to ensure the accuracy and validity of the entries and balances. To prevent errors and irregularities from occurring, USAC has enhanced its monthly reconciliation and management review process. For example, on a weekly basis Finance prepares a journal entry transaction detail report to scrutinize account balances and confirm the accuracy of transactions. If errors or irregularities do occur, they will be detected in a timely manner and quickly resolved. USAC procedures will require a signature as authorization and evidence of management review.

3) Enhance Supervisory Review Procedures

USAC Management Response

We agree with the auditors' comments, and the following action either has been or will be taken to address the situation identified. USAC has set into practice management directive for consistent application of month-end close procedures that require monthly reconciliation and review of key balance sheet accounts, including cash, accounts receivable, fixed assets, and accounts payable. This includes a review of the appropriate ending balance based on the accounts characteristics. Management will require signatures and dates by the preparer and reviewer on reconciliations worksheets and the month-end close schedule as evidence of that reconciliation were performed and provided explanations for identified variances. Management will resolve identified variances in a timely manner. As a final control step in the month-end close process, management prepares and reviews preliminary trial balance and financial statements to determine the reasonableness and proper classification of key balance sheet and expense line item balances. This review includes a check for recurring significant transactions and accruals. Management will notify all employees to comply with established policies and procedures.

We are committed to continually strengthening USAC's internal controls over financial reporting and processes. We look forward to working in FY2009 to resolve any FY2008 audit findings and to further improve the completeness, timeliness, and accuracy of USAC's financial information.

Sincerely,

W.B. Erwin, *Vice President of Finance*

Universal Service Fund Program Statistics – 2009

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

FUNDING YEAR

For the Rural Health Care and Schools and Libraries programs, a Funding Year (FY) 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. Data in these tables are for Calendar Year 2009.

DISBURSEMENTS

The tables contain the amount of USF support issued in Calendar Year 2009. For the Rural Health Care and Schools and Libraries programs, the disbursement data is also shown by Funding Year in addition to the total 2009 amount disbursed. For the Rural Health Care and Schools and Libraries Programs, disbursement data 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 for a particular Funding Year.

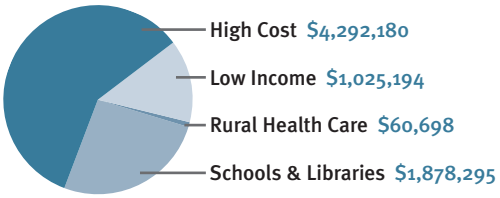
Commitments made in Calendar Year 2009 may be for applications filed during previous Funding Years and the current Funding Year.

The tables for the Rural Health Care and Schools and Libraries Programs provide Calendar Year 2009 commitment data and Funding Year 2009 commitment data for program applicants.

Rural Health Care and Schools and Libraries Program Funding Years	Start Date	End Date
Funding Year 2007 (FY2007)	July 1, 2007	June 30, 2008
Funding Year 2008 (FY2008)	July 1, 2008	June 30, 2009
Funding Year 2009 (FY2009)	July 1, 2009	June 30, 2010

2009 Disbursements by Program

Unaudited (in thousands)



Total $7,256,367

High Cost Program Support

Disbursements by Component, 2009
Unaudited (in thousands)

State	High Cost Loop	High Cost Model	Interstate Access Support	Interstate Common Line Support	Local Switching Support	Total 2009	Total 1998-12/31/09
Alabama	$ 18,293	$ 39,605	$ 16,646	$ 20,943	$ 4,571	$ 100,060	$ 1,094,859
Alaska	72,555	0	0	80,347	15,369	168,272	1,306,292
American Samoa	0	0	0	2,870	1,068	3,938	22,385
Arizona	29,224	0	16,339	13,787	7,852	67,204	730,952
Arkansas	75,333	0	239	63,843	8,835	148,252	1,346,054
California	34,953	0	38,441	29,667	4,446	107,507	1,041,060
Colorado	34,607	0	17,447	22,731	4,609	79,397	829,619
Connecticut	0	0	496	(285)	(601)	(390)	15,703
Delaware	0	0	226	0	0	226	5,919
District of Columbia	0	0	0	0	0	0	0
Florida	7,864	0	47,944	11,456	3,130	70,395	830,446
Georgia	39,287	0	19,443	64,469	12,938	136,139	1,255,498
Guam	2,945	0	0	13,704	0	16,649	102,857
Hawaii	36,958	0	2,001	17,448	2,007	58,415	284,098
Idaho	19,144	0	13,147	12,793	5,693	50,779	560,007
Illinois	21,158	0	9,896	32,775	11,108	74,939	629,711
Indiana	22,755	0	17,326	26,537	7,798	74,417	601,230
Iowa	38,886	0	10,640	53,564	24,343	127,434	897,563
Kansas	137,831	0	5,936	70,937	15,596	230,301	1,648,282
Kentucky	35,118	15,939	14,777	30,831	5,137	101,804	784,121
Louisiana	93,353	0	13,753	43,150	6,236	156,494	1,285,144
Maine	5,011	2,017	52	13,617	6,743	27,443	354,711
Maryland	213	0	2,260	972	519	3,965	40,201
Massachusetts	59	0	1,450	357	545	2,412	57,295
Michigan	26,333	0	564	25,532	10,763	63,193	595,282
Minnesota	44,710	0	3,120	60,918	18,287	127,037	1,047,481
Mississippi	36,918	196,529	21,468	21,219	5,132	281,267	2,196,612
Missouri	55,393	0	9,696	37,648	5,901	108,639	996,304
Montana	30,255	16,903	790	26,529	5,375	79,855	780,390
Nebraska	38,034	9,912	8,051	40,051	20,561	116,611	688,276
Nevada	4,928	0	9,041	6,394	5,206	25,570	286,382
New Hampshire	234	0	1,517	3,725	3,097	8,575	113,543
New Jersey	0	0	255	407	393	1,058	26,760
New Mexico	31,726	0	9,712	21,363	8,588	71,390	622,326
New York	7,014	0	12,544	14,679	10,729	44,967	594,492
North Carolina	13,106	0	22,911	43,385	6,231	85,634	753,543
North Dakota	40,170	0	817	41,065	12,399	94,452	655,400
Northern Mariana Islands	0	0	89	0	1,218	1,308	29,362
Ohio	8,992	0	10,060	11,219	3,585	33,857	388,764
Oklahoma	71,326	0	3,005	52,415	15,800	142,547	1,216,020
Oregon	28,419	0	15,902	25,933	8,570	78,825	774,411
Pennsylvania	1,646	0	19,268	33,036	3,817	57,769	563,701
Puerto Rico	0	0	0	74,387	0	74,387	1,525,890
Rhode Island	0	0	33	0	0	33	456
South Carolina	33,413	0	9,666	50,821	4,473	98,375	843,994
South Dakota	42,152	1,879	264	39,819	13,222	97,337	673,207
Tennessee	17,105	0	8,805	27,759	5,225	58,896	562,476
Texas	122,195	0	40,005	81,997	17,849	262,048	2,401,478
Utah	5,401	0	2,136	8,141	3,541	19,220	224,928
Vermont	3,300	6,697	1,787	6,542	2,880	21,208	305,464
Virgin Islands	4,968	0	0	11,017	0	15,986	284,714
Virginia	3,452	0	55,345	9,897	4,238	72,933	748,175
Washington	28,187	0	22,355	36,382	7,532	94,458	932,456
West Virginia	3,492	29,007	19,797	3,040	3,301	58,640	736,181
Wisconsin	37,962	0	138	80,877	20,308	139,287	1,171,135
Wyoming	15,268	12,093	4,946	13,910	4,522	50,740	542,159
TOTAL	$ 1,481,670	$ 330,584	$ 562,572	$ 1,536,646	$ 380,706	$ 4,292,180	$ 39,005,795

Note: Numbers may not add due to rounding. High Cost Loop includes two sub-components: Safety Net Additive Support and Safety Valve Support.

Disbursements by Rural/Non-Rural, 2009
Unaudited (in thousands)

State	Total Rural	Total Non-Rural	Total 2009
Alabama	$ 41,780	$ 58,280	$ 100,060
Alaska	122,492	45,779	168,272
American Samoa	1,619	2,319	3,938
Arizona	52,453	14,751	67,204
Arkansas	122,739	25,513	148,252
California	67,235	40,271	107,507
Colorado	58,389	21,007	79,397
Connecticut	(886)	496	(390)
Delaware	0	226	226
District of Columbia	0	0	0
Florida	36,676	33,719	70,395
Georgia	105,013	31,125	136,139
Guam	9,574	7,075	16,649
Hawaii	46,189	12,226	58,415
Idaho	47,918	2,861	50,779
Illinois	60,964	13,974	74,939
Indiana	56,786	17,631	74,417
Iowa	95,892	31,541	127,434
Kansas	203,028	27,272	230,301
Kentucky	62,159	39,645	101,804
Louisiana	125,994	30,499	156,494
Maine	20,834	6,608	27,443
Maryland	1,705	2,260	3,965
Massachusetts	961	1,450	2,412
Michigan	53,488	9,705	63,193
Minnesota	102,816	24,220	127,037
Mississippi	53,551	227,715	281,267
Missouri	98,135	10,503	108,639
Montana	59,205	20,649	79,855
Nebraska	77,935	38,675	116,611
Nevada	17,145	8,424	25,570
New Hampshire	6,970	1,605	8,575
New Jersey	1,058	0	1,058
New Mexico	60,835	10,555	71,390
New York	36,780	8,186	44,967
North Carolina	63,612	22,022	85,634
North Dakota	74,907	19,544	94,452
Northern Mariana Islands	1,285	22	1,308
Ohio	27,406	6,450	33,857
Oklahoma	128,330	14,216	142,547
Oregon	58,199	20,626	78,825
Pennsylvania	45,770	11,998	57,769
Puerto Rico	0	74,387	74,387
Rhode Island	0	33	33
South Carolina	87,722	10,653	98,375
South Dakota	79,874	17,463	97,337
Tennessee	51,866	7,029	58,896
Texas	223,599	38,449	262,048
Utah	17,999	1,221	19,220
Vermont	12,708	8,499	21,208
Virgin Islands	15,889	97	15,986
Virginia	26,709	46,223	72,933
Washington	59,555	34,903	94,458
West Virginia	16,062	42,578	58,640
Wisconsin	105,295	33,992	139,287
Wyoming	29,751	20,988	50,740
TOTAL	$ 3,033,996	$ 1,258,183	$ 4,292,180

Note: Numbers may not add due to rounding. Negative amounts may be the result of prior period adjustments or component true-ups.

High Cost Program Support

Disbursements by Incumbent v. Competitive ETC, 2009
Unaudited (in thousands)

State	Incumbent ETC	Competitive ETC	Total 2009
Alabama	$ 81,782	$ 18,278	$ 100,060
Alaska	92,893	75,378	168,272
American Samoa	827	3,111	3,938
Arizona	56,780	10,423	67,204
Arkansas	90,602	57,650	148,252
California	107,418	89	107,507
Colorado	69,333	10,063	79,397
Connecticut	(390)	0	(390)
Delaware	226	0	226
District of Columbia	0	0	0
Florida	58,844	11,551	70,395
Georgia	107,996	28,142	136,139
Guam	8,095	8,554	16,649
Hawaii	25,747	32,668	58,415
Idaho	43,051	7,727	50,779
Illinois	60,219	14,720	74,939
Indiana	66,896	7,521	74,417
Iowa	65,069	62,365	127,434
Kansas	143,574	86,726	230,301
Kentucky	73,286	28,518	101,804
Louisiana	91,828	64,666	156,494
Maine	18,408	9,034	27,443
Maryland	3,965	0	3,965
Massachusetts	2,412	0	2,412
Michigan	40,964	22,228	63,193
Minnesota	78,469	48,568	127,037
Mississippi	120,792	160,474	281,267
Missouri	88,475	20,163	108,639
Montana	67,984	11,870	79,855
Nebraska	54,953	61,657	116,611
Nevada	19,728	5,842	25,570
New Hampshire	8,356	219	8,575
New Jersey	1,058	0	1,058
New Mexico	54,747	16,642	71,390
New York	41,845	3,121	44,967
North Carolina	75,979	9,655	85,634
North Dakota	49,249	45,202	94,452
Northern Mariana Islands	660	647	1,308
Ohio	33,857	0	33,857
Oklahoma	112,854	29,692	142,547
Oregon	58,903	19,921	78,825
Pennsylvania	56,441	1,328	57,769
Puerto Rico	10,749	63,637	74,387
Rhode Island	33	0	33
South Carolina	92,921	5,454	98,375
South Dakota	60,384	36,952	97,337
Tennessee	57,779	1,117	58,896
Texas	227,493	34,555	262,048
Utah	18,958	262	19,220
Vermont	21,307	(98)	21,208
Virgin Islands	15,450	535	15,986
Virginia	58,104	14,829	72,933
Washington	60,909	33,549	94,458
West Virginia	41,771	16,869	58,640
Wisconsin	83,061	56,225	139,287
Wyoming	35,112	15,627	50,740
TOTAL	$ 3,018,231	$ 1,273,948	$ 4,292,180

Note: Numbers may not add due to rounding. Negative amounts may be the result of prior period adjustments or component true-ups.

Disbursements by Component, 2009
Unaudited (in thousands)

Low Income Program Support

State	Lifeline	Link Up	Toll Limitation Service	Total 2009	Total 1998-12/31/09
Alabama	$ 18,353	$ 4,354	$ 2,943	$ 25,652	$ 66,080
Alaska	24,323	83	73	24,479	95,168
American Samoa	38	0	0	38	651
Arizona	21,513	245	53	21,812	166,283
Arkansas	3,362	652	3	4,018	22,975
California	188,633	5,285	319	194,238	3,345,576
Colorado	2,863	36	5	2,904	36,389
Connecticut	5,347	40	0	5,388	59,914
Delaware	658	2	0	661	2,711
District of Columbia	1,071	5	0	1,077	11,322
Florida	72,090	2,178	451	74,719	253,754
Georgia	31,971	1,496	45	33,513	122,947
Guam	295	11	0	307	3,390
Hawaii	489	4	0	494	10,407
Idaho	3,551	42	8	3,602	35,172
Illinois	10,110	3,372	166	13,648	97,402
Indiana	4,616	293	6	4,916	48,280
Iowa	4,207	97	8	4,314	40,774
Kansas	3,001	70	56	3,127	23,861
Kentucky	8,214	959	628	9,802	71,660
Louisiana	7,099	4,155	755	12,011	42,929
Maine	6,616	174	7	6,798	97,954
Maryland	784	72	0	857	6,085
Massachusetts	21,035	6	0	21,042	180,876
Michigan	27,896	2,358	73	30,328	163,564
Minnesota	6,936	100	5	7,042	64,488
Mississippi	8,147	1,660	71	9,879	45,665
Missouri	7,781	304	112	8,197	52,815
Montana	3,828	39	7	3,875	28,450
Nebraska	2,104	38	13	2,156	21,756
Nevada	2,811	94	0	2,906	33,572
New Hampshire	742	2	0	745	6,642
New Jersey	14,972	79	1	15,053	106,743
New Mexicio	14,434	134	26	14,595	101,084
New York	59,981	90	9	60,081	592,741
North Carolina	30,202	2,390	1,306	33,899	150,379
North Dakota	3,093	5	1	3,100	30,665
Northern Mariana Islands	154	13	0	168	911
Ohio	36,054	612	39	36,707	307,693
Oklahoma	61,454	7,458	2,228	71,141	317,990
Oregon	5,328	73	10	5,412	56,449
Pennsylvania	20,891	707	3	21,602	141,531
Puerto Rico	28,406	447	0	28,854	129,109
Rhode Island	3,419	5	0	3,425	51,258
South Carolina	6,978	1,686	963	9,628	40,750
South Dakota	3,345	(12)	0	3,333	45,043
Tennessee	28,532	2,640	176	31,349	93,312
Texas	96,345	4,821	747	101,913	699,676
Utah	3,742	47	17	3,808	32,053
Vermont	2,551	22	1	2,575	34,393
Virgin Islands	77	0	0	77	580
Virginia	15,123	74	0	15,197	39,353
Washington	17,047	631	25	17,704	157,324
West Virginia	1,174	13	0	1,189	7,322
Wisconsin	8,408	915	17	9,340	88,111
Wyoming	461	6	0	469	6,622
TOTAL	$ 962,685	$ 51,109	$ 11,399	$ 1,025,194	$ 8,490,632

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

Low Income Program Support

Disbursements by Incumbent v. Competitive ETC, 2009
Unaudited (in thousands)

State	Incumbent ETC	Competitive ETC	Total 2009
Alabama	$ 6,030	$ 19,621	$ 25,652
Alaska	3,343	21,136	24,479
American Samoa	38	0	38
Arizona	5,030	16,781	21,812
Arkansas	3,293	725	4,018
California	192,664	1,573	194,238
Colorado	2,892	12	2,904
Connecticut	3,824	1,564	5,388
Delaware	166	495	661
District of Columbia	616	460	1,077
Florida	25,905	48,813	74,719
Georgia	15,404	18,109	33,513
Guam	307	0	307
Hawaii	493	0	494
Idaho	3,316	286	3,602
Illinois	7,252	6,396	13,648
Indiana	4,909	7	4,916
Iowa	3,862	451	4,314
Kansas	2,540	587	3,127
Kentucky	6,363	3,438	9,802
Louisiana	3,876	8,134	12,011
Maine	6,439	358	6,798
Maryland	736	121	857
Massachusetts	10,011	11,031	21,042
Michigan	9,407	20,921	30,328
Minnesota	6,122	920	7,042
Mississippi	7,804	2,075	9,879
Missouri	7,374	822	8,197
Montana	2,350	1,524	3,875
Nebraska	1,723	433	2,156
Nevada	2,821	84	2,906
New Hampshire	440	304	745
New Jersey	12,064	2,988	15,053
New Mexico	7,322	7,272	14,595
New York	32,876	27,205	60,081
North Carolina	14,301	19,598	33,899
North Dakota	2,287	813	3,100
Northern Mariana Islands	165	2	168
Ohio	29,577	7,129	36,707
Oklahoma	15,600	55,541	71,141
Oregon	5,225	187	5,412
Pennsylvania	14,700	6,901	21,602
Puerto Rico	15,928	12,925	28,854
Rhode Island	2,570	854	3,425
South Carolina	6,553	3,075	9,628
South Dakota	1,464	1,869	3,333
Tennessee	11,693	19,655	31,349
Texas	93,293	8,619	101,913
Utah	3,558	249	3,808
Vermont	2,585	(9)	2,575
Virgin Islands	77	0	77
Virginia	2,067	13,130	15,197
Washington	11,291	6,412	17,704
West Virginia	423	765	1,189
Wisconsin	6,813	2,527	9,340
Wyoming	433	35	469
TOTAL	$ 640,242	$ 384,951	$ 1,025,194

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

Commitments and Disbursements, 2009
Unaudited (in thousands)

Rural Health Care Program Support

State	Commitments: Funding Year 2009	Commitments: Calendar Year 2009	Commitments: Total 1998–12/31/09	Disbursements: Calendar Year 2009	Disbursements: Total 1998–12/31/09
Alabama	$ 91	$ 363	$ 1,006	$ 229	$ 736
Alaska	1	25,956	174,953	29,122	160,294
American Samoa	0	149	258	141	250
Arizona	172	1,756	11,375	1,954	9,333
Arkansas	1	713	1,880	401	1,165
California	55	1,262	4,749	942	3,839
Colorado	36	349	1,469	234	1,250
Connecticut	0	0	0	0	0
Delaware	0	0	1	0	0
District of Columbia	0	0	0	0	0
Florida	17	534	2,513	854	2,062
Georgia	666	2,458	5,619	1,989	4,491
Guam	0	95	198	101	101
Hawaii	0	143	2,184	196	2,096
Idaho	14	294	1,397	257	1,200
Illinois	195	1,407	4,489	1,389	3,787
Indiana	76	1,098	2,379	822	1,799
Iowa	19	676	2,744	571	2,356
Kansas	16	313	3,348	327	3,176
Kentucky	32	518	3,742	708	3,544
Louisiana	0	73	1,090	40	931
Maine	0	59	362	63	245
Maryland	0	0	0	0	0
Massachusetts	21	173	397	150	369
Michigan	46	1,679	7,615	941	5,825
Minnesota	175	3,085	13,018	2,637	11,588
Mississippi	49	238	1,191	148	1,062
Missouri	114	644	1,711	578	1,368
Montana	6	978	5,468	843	5,154
Nebraska	779	2,316	10,391	1,391	9,075
Nevada	0	103	600	73	453
New Hampshire	0	15	87	11	81
New Jersey	0	0	0	0	0
New Mexico	0	912	3,472	386	2,705
New York	5	61	463	62	380
North Carolina	4	343	1,858	312	1,680
North Dakota	124	1,642	6,204	1,201	5,295
Northern Mariana Islands	0	0	0	0	0
Ohio	5	431	1,517	426	1,252
Oklahoma	81	886	2,210	809	1,634
Oregon	65	446	919	312	709
Pennsylvania	4	147	587	109	444
Puerto Rico	0	0	0	0	0
Rhode Island	0	0	0	0	0
South Carolina	0	13	292	47	265
South Dakota	166	1,533	6,712	1,388	6,189
Tennessee	51	282	1,279	242	1,114
Texas	26	1,071	4,157	889	2,941
Utah	102	1,087	4,795	666	3,924
Vermont	0	108	507	115	495
Virgin Islands	43	98	728	74	678
Virginia	343	1,247	4,234	731	3,049
Washington	4	74	725	80	627
West Virginia	26	302	1,084	308	960
Wisconsin	145	6,525	17,510	5,281	14,230
Wyoming	35	176	1,252	148	1,116
Total	$ 3,810	$ 64,832	$ 326,736	$ 60,698	$ 287,317

Note: There were no disbursements for Funding Year 2009 (July 1, 2009 - June 30, 2010) as of 12/31/2009. Numbers may not add due to rounding.

Schools & Libraries Program Support

Commitments and Disbursements, 2009
Unaudited (in thousands)

State	Funding Year 2009 Commitments	Funding Year 2009 Disbursements	Calendar Year 2009 Commitments	Calendar Year 2009 Disbursements	Total Program Commitments 1998–12/31/09	Total Program Disbursements 1998–12/31/09
Alabama	$ 37,149	$ 2,790	$ 46,716	$ 28,922	$ 389,227	$ 297,383
Alaska	19,426	2,734	38,425	22,542	204,116	154,951
American Samoa	30	0	1,624	4,282	21,243	19,354
Arizona	43,913	2,524	70,503	49,278	632,550	420,452
Arkansas	12,944	925	25,023	14,974	238,728	146,119
California	293,701	13,092	511,115	281,161	3,747,502	2,471,925
Colorado	15,063	1,257	18,904	14,452	223,816	159,532
Connecticut	22,787	3,391	23,237	22,255	301,830	232,535
Delaware	1,231	3	1,352	831	15,148	11,316
District of Columbia	1,560	128	4,606	8,440	148,320	81,576
Florida	83,635	3,966	98,992	75,933	845,473	600,457
Georgia	46,240	4,396	68,827	67,875	797,244	601,679
Guam	758	0	1,631	334	22,564	16,157
Hawaii	3,737	30	3,748	1,930	45,030	25,160
Idaho	9,204	173	10,105	4,750	58,955	36,942
Illinois	72,950	3,436	101,345	63,987	1,143,839	809,229
Indiana	15,605	869	26,714	22,702	296,128	192,511
Iowa	7,801	1,441	8,391	9,899	121,542	87,093
Kansas	15,404	1,390	19,484	15,278	172,946	122,224
Kentucky	33,257	1,890	43,379	28,136	407,141	267,636
Louisiana	49,508	4,970	58,067	35,427	514,287	380,944
Maine	8,926	140	12,224	6,159	79,426	51,971
Maryland	15,189	230	20,896	9,850	202,080	143,960
Massachusetts	29,389	3,558	36,757	22,729	391,716	268,468
Michigan	44,798	4,205	60,634	51,300	695,041	483,392
Minnesota	20,551	991	24,623	17,168	282,479	204,136
Mississippi	32,350	3,055	41,286	29,982	419,107	286,485
Missouri	29,423	1,050	39,577	26,168	454,456	324,901
Montana	4,561	930	6,110	4,201	48,549	35,856
Nebraska	8,314	1,182	9,489	9,004	91,694	72,200
Nevada	5,196	70	5,276	4,295	61,066	41,289
New Hampshire	2,832	130	2,887	2,285	24,188	15,097
New Jersey	51,681	1,730	66,088	37,106	604,856	406,094
New Mexico	14,790	1,074	25,172	26,912	440,029	293,068
New York	163,520	6,762	205,003	237,857	3,511,458	2,170,671
North Carolina	46,855	6,153	64,474	57,744	557,514	417,359
North Dakota	4,892	1,426	4,910	3,560	43,406	34,722
Northern Mariana Islands	990	239	1,152	1,142	12,629	9,618
Ohio	68,499	5,932	92,469	63,578	858,880	583,706
Oklahoma	76,651	6,768	81,359	35,314	525,133	353,567
Oregon	13,566	693	15,106	15,057	158,543	108,263
Pennsylvania	79,016	4,621	86,374	69,524	862,942	661,170
Puerto Rico	8,366	1,434	18,276	8,735	293,674	169,163
Rhode Island	8,222	468	8,253	5,466	79,463	58,434
South Carolina	38,835	811	64,336	37,412	516,911	355,290
South Dakota	3,931	267	6,402	5,536	60,073	39,990
Tennessee	63,872	5,110	65,236	49,110	622,601	430,538
Texas	192,304	4,768	278,510	155,009	2,637,379	1,846,890
Utah	22,133	21	24,793	15,628	153,343	95,236
Vermont	2,449	84	2,515	1,382	22,159	13,645
Virgin Islands	642	126	642	2,014	38,902	32,478
Virginia	34,958	2,798	37,631	29,056	341,885	258,215
Washington	32,344	767	47,716	27,850	299,782	202,465
West Virginia	15,884	771	16,512	10,647	121,585	74,330
Wisconsin	18,085	1,800	36,183	22,569	313,397	231,858
Wyoming	1,451	165	4,035	3,559	35,534	25,948
TOTAL	$ 1,951,370	$ 119,733	$ 2,695,093	$ 1,878,295	$ 26,209,511	$ 17,935,649

Note: Funding Year data as of 12/31/2009. Funding Year 2009: July 1, 2009 - June 30, 2010. Numbers may not add due to rounding.

Discount Band	Telecom Services	Internet Access	Internal Connections	Basic Maintenance	Total	% of Total
20-29%	$ 1,868	$ 527			$ 2,395	0.12%
30-39%	5,286	1,018			6,304	0.32%
40-49%	99,210	24,006	Internal Connections and Basic Maintenance were funded at the 80% level and above, as of 12/31/2009.		123,216	6.31%
50-59%	98,592	24,828			123,420	6.32%
60-69%	178,807	43,974			222,781	11.42%
70-79%	221,892	76,524			298,416	15.29%
80-89%	349,830	75,945	$ 231,422	$ 47,901	705,098	36.13%
90%	92,231	39,364	261,211	76,935	469,741	24.07%
TOTAL	$ 1,047,716	$ 286,186	$ 492,633	$ 124,836	$ 1,951,370	100.00%

Note: Funding Year data as of 12/31/2009. Funding Year 2009: July 1, 2009 - June 30, 2010. Numbers may not add due to rounding.

Universal Service Fund Disbursements by Program

Calendar Year 2009
Unaudited (in thousands)

State	High Cost	Low Income	Rural Health Care	Schools & Libraries	Total 2009 Disbursements	Total All Programs 1998–2009
Alabama	$ 100,060	$ 25,652	$ 229	$ 28,922	$ 154,864	$ 1,459,057
Alaska	168,272	24,479	29,122	22,542	244,415	1,716,677
American Samoa	3,938	38	141	4,282	8,399	42,640
Arizona	67,204	21,812	1,954	49,278	140,248	1,327,003
Arkansas	148,252	4,018	401	14,974	167,645	1,516,311
California	107,507	194,238	942	281,161	583,848	6,862,415
Colorado	79,397	2,904	234	14,452	96,987	1,026,788
Connecticut	(390)	5,388	0	22,255	27,253	308,150
Delaware	226	661	0	831	1,719	19,946
District of Columbia	0	1,077	0	8,440	9,517	92,898
Florida	70,395	74,719	854	75,933	221,901	1,686,717
Georgia	136,139	33,513	1,989	67,875	239,515	1,984,611
Guam	16,649	307	101	334	17,391	122,505
Hawaii	58,415	494	196	1,930	61,035	321,761
Idaho	50,779	3,602	257	4,750	59,387	633,319
Illinois	74,939	13,648	1,389	63,987	153,963	1,540,132
Indiana	74,417	4,916	822	22,702	102,857	843,822
Iowa	127,434	4,314	571	9,899	142,218	1,027,786
Kansas	230,301	3,127	327	15,278	249,033	1,797,542
Kentucky	101,804	9,802	708	28,136	140,450	1,126,960
Louisiana	156,494	12,011	40	35,427	203,971	1,709,949
Maine	27,443	6,798	63	6,159	40,463	504,881
Maryland	3,965	857	0	9,850	14,672	190,234
Massachusetts	2,412	21,042	150	22,729	46,333	507,007
Michigan	63,193	30,328	941	51,300	145,762	1,248,063
Minnesota	127,037	7,042	2,637	17,168	153,884	1,327,691
Mississippi	281,267	9,879	148	29,982	321,276	2,529,824
Missouri	108,639	8,197	578	26,168	143,582	1,375,387
Montana	79,855	3,875	843	4,201	88,774	849,851
Nebraska	116,611	2,156	1,391	9,004	129,162	791,307
Nevada	25,570	2,906	73	4,295	32,844	361,697
New Hampshire	8,575	745	11	2,285	11,616	135,364
New Jersey	1,058	15,053	0	37,106	53,217	539,597
New Mexico	71,390	14,595	386	26,912	113,283	1,019,184
New York	44,967	60,081	62	237,857	342,967	3,358,285
North Carolina	85,634	33,899	312	57,744	177,590	1,322,974
North Dakota	94,452	3,100	1,201	3,560	102,313	726,082
Northern Mariana Islands	1,308	168	0	1,142	2,618	39,891
Ohio	33,857	36,707	426	63,578	134,568	1,281,415
Oklahoma	142,547	71,141	809	35,314	249,810	1,889,210
Oregon	78,825	5,412	312	15,057	99,606	939,835
Pennsylvania	57,769	21,602	109	69,524	149,005	1,366,845
Puerto Rico	74,387	28,854	0	8,735	111,976	1,824,162
Rhode Island	33	3,425	0	5,466	8,924	110,147
South Carolina	98,375	9,628	47	37,412	145,462	1,240,299
South Dakota	97,337	3,333	1,388	5,536	107,593	764,429
Tennessee	58,896	31,349	242	49,110	139,597	1,087,442
Texas	262,048	101,913	889	155,009	519,859	4,950,984
Utah	19,220	3,808	666	15,628	39,322	356,141
Vermont	21,208	2,575	115	1,382	25,281	353,997
Virgin Islands	15,986	77	74	2,014	18,152	318,448
Virginia	72,933	15,197	731	29,056	117,916	1,048,792
Washington	94,458	17,704	80	27,850	140,092	1,292,873
West Virginia	58,640	1,189	308	10,647	70,784	818,795
Wisconsin	139,287	9,340	5,281	22,569	176,477	1,505,659
Wyoming	50,740	469	148	3,559	54,916	575,844
TOTAL BY PROGRAM	$ 4,292,180	$ 1,025,194	$ 60,698	$ 1,878,295	$ 7,256,367	$ 65,719,680

Note: Numbers may not add due to rounding.

USAC's Board of Directors 2009

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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The Universal Service Administrative Company (USAC) is an independent, not-for-profit corporation designated as the administrator of the federal Universal Service Fund by the Federal Communications Commission (FCC). USAC administers Universal Service Fund programs for high cost companies serving rural areas, low-income consumers, rural health care providers, and schools and libraries. The Universal Service Fund helps provide communities across the country with affordable telecommunications services.

For more information, go to

www.usac.org