

EXHIBIT W

From: David Crowell
To: Hardin, Jeana
Sent: Thu Apr 23 09:58:31 2009
Subject: Cisco Call Manager License/Server Extension
Jeanna,

PNC should have everything they need to extend this license until we get the new hardware/software ordered. I got this approved yesterday and forwarded to Jeremy and Phillip last night.

Thanks.

David Crowell
Enterprise Account Manager
Cisco Systems - North Carolina Public Sector

1900 South Boulevard
Charlotte, NC 28203

dacrowel@cisco.com
Phone :704-338-7330
Mobile :704-763-4038

All email correspondence to and from this address is subject to the North Carolina Public Records Law, which may result in monitoring and disclosure to third parties, including law enforcement.

EXHIBIT X

Cherokee County Schools
Dr. Stephen E. Lane, Superintendent
911 Andrews Road • Murphy, NC 28906
(828) 837-2722 • Fax (828) 837-5799
www.cherokee.k12.nc.us

Board of Education

Trnett
William
Wendell L. Clonts
Chairman
Bobbie Hogan
Diane
David Ackerman
Linda W. Arrowood
Mark C. Brinke
Donald H. Shields

June 1, 2009

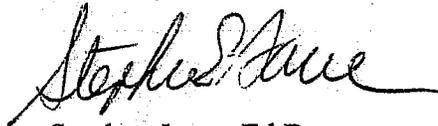
Mr. Jeff Gaura
Professional Networks Consultants
P O Box 731
Monroe, North Carolina 28111

Dear Mr. Gaura:

It has come to my attention that Professional Network Consultants (PNC) has ordered from third party vendors a major portion of the hardware for which USAC has approved a funding commitment for 2008/09. Cherokee County Schools has filed a Form 486 notifying the service provider (PNC) that the project is expected to proceed but Cherokee County Schools has not issued purchase orders for this hardware. Issuance of purchase orders is standard practice and required by NC General Statute 115C-522(a). This was the process used a year ago for FRN 1622005 and 1622015. It has also come to my attention that PNC has billed USAC for this hardware and for basic maintenance services. Once again, this has been done without our formal authorization through issuance of purchase orders.

I am asking you to cease any activity regarding the Year 11 Form 471 funding commitments for FRN's 1757834, 1758563, 1758668, 1758759, 1758846, 1759589, 1759670, 1759708, 1759746, 1759787, 1759840, 1759871, 1759911, 1760182, 1760217, 1832913 until further notice. This notification is by email as well as certified mail.

Sincerely,



Stephen Lane, Ed.D.,
Superintendent

Cc: Terelle Beaver, Chief Finance Officer
Jeana Hardin, Director of Technology

EXHIBIT Y



Professional | Network | Consultants

Connecting with Technology

5101 Sugar and Wine Road

Monroe, NC 28110

office: 704.583.4200

www.professionalnetworks.com



June 10, 2009

Dr. Stephen Lane, Ed.D.
Superintendent
Cherokee County Schools
911 Andrews Road
Murphy, NC 28906

Dear Dr. Lane:

Since Professional Network Consultants, Inc. ("PNC") and the Cherokee County Schools entered into a Professional Services Agreement ("Agreement"), we have worked cooperatively in meeting the needs of the school system and its students. This is not surprising since we have common interests; both PNC and Cherokee County Schools want to do what is best for students by providing high-speed Internet access and associated capabilities consistent with the terms of our Agreement and the federal Schools and Libraries ("E-Rate") program.

We appreciate our relationship with and have no desire to become embroiled in a lawsuit against Cherokee County Schools. We recognize that these are difficult economic times, and we are anxious to work amicably to reach a mutually beneficial solution. In that spirit, we would appreciate the opportunity to meet with you and the Department in an effort to explore all available options that will allow us to fulfill our obligations under the E-Rate program while meeting the educational needs of Cherokee County students. Indeed, because of the magnitude of the situation and the potential adverse impacts on students if we were to cease further activity on the approved funding requests, it may be worthwhile for the parties to obtain guidance from USAC, which should have every incentive to work through any issues in an expeditious manner.

Under the circumstances, you can understand our disappointment in receiving your June 1, 2009 letter. Although your letter correctly recognizes that PNC has spent considerable time and money in providing services consistent with our Agreement and the E-Rate program, you request that PNC cease any further activity regarding approved funding requests because Cherokee County Schools "has not issued purchase orders," which, according to your letter, "was the process used" in the past.

We understand and take seriously our obligations under our Agreement and the E-Rate program and are confident that Cherokee County Schools does likewise. However, and with all due respect, we do not believe your letter accurately reflects: (1) the process by which work is performed under the E-Rate program, which neither contemplates nor requires the issuance of



Professional | Network | Consultants

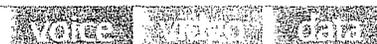
5101 Sugar and Wine Road

Monroe, NC 28110

office: 704.583.4200

www.professionalnetworks.com

Connecting with Technology



“purchase orders”; or (2) the process to which PNC and the Cherokee County Schools agreed and the prior course of dealings between the parties in providing services under the E-Rate program.

First, under the E-Rate program, the trigger for a service provider providing services is the Form 486 process. As the Universal Service Administrative Company (“USAC”) notes on its website, an applicant “files the Receipt of Service Confirmation Form (Form 486) to indicate that the provision of services has begun,” after which USAC sends the service provider a copy of the Form 486 Notification Letter, which authorizes the service provider to invoice USAC. See USAC Procedures for Service Providers – Step 7 (Begin Providing Services) (<http://www.universalservice.org/sl/providers/step07/default.aspx>). Here, for all the funding request numbers that are the subject of your letter, Cherokee County Schools filed a Form 486 with USAC, and PNC received a Form 486 Notification Letter. Nothing more was required in order for PNC to fulfill its contractual obligations and responsibilities under the E-Rate program.

Second, in addition to being inconsistent with the E-Rate program, it has not been our experience that Cherokee County Schools issues purchase orders for services compensable under the E-Rate program. Last year, PNC installed Priority 2 technology at two schools in Cherokee County, and in both instances, the school system submitted a Form 486. Consistent with E-Rate procedures, after receiving notice of the Form 486 submissions, PNC ordered the equipment and invoiced USAC. PNC did not wait for, and never received, a purchase order from Cherokee County Schools for such equipment. Although Cherokee County Schools did issue purchase orders for the portion of projects not covered by USAC, the equipment and services that are the subject of your letter involve USAC-compensable expenses.

Third, PNC consistently made clear to Cherokee County Schools that it intended to perform its contractual obligations once the Form 486 Notification was in hand; at no point did anyone with the school system request or even suggest that PNC delay doing so until issuance of a purchase order. The Agreement makes no mention of the issuance of purchase orders and certainly does not require that PNC wait for a purchase order before performing its contractual responsibilities to USAC after issuance of the Form 486 Notification.

PNC finds itself in a particularly difficult situation through no fault of its own. PNC has obtained funds from USAC in connection with the approved funding requests, a significant portion of which PNC has spent in good faith in order to fulfill its obligations under the Agreement and the E-Rate program. The Company obviously cannot refund to USAC funds that already have been spent.

While Cherokee County Schools could conceivably seek to cancel at this late date the funding requests that have already been approved and partially performed, doing so would benefit no one, especially the students. We are confident that Cherokee County Schools will pursue all remedies at its disposal to resolve any issues it may have with USAC funding so that this important project can continue to proceed in a timely manner. In addition, we have been advised by our attorneys that, in the event the approved funding requests are modified or cancelled at this juncture and PNC



Professional | Network | Consultants

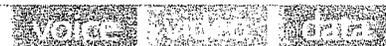
5101 Sugar and Wine Road

Monroe, NC 28110

office: 704.583.4200

www.professiona1networks.com

Connecting with Technology



is compelled to make refunds, PNC would have a claim against the Cherokee County Schools. In particular, our attorneys point to section 10 of the Agreement, which obligates Cherokee County Schools to "indemnify and hold harmless PNC and its directors, officers, employees and agents from and against all claims, liability, losses, damages and expenses (including attorneys' fees and court costs) arising from or in connection with any acts or omissions" of the school system.

I look forward to hearing from you at your earliest convenience. We look forward to meeting with you and continuing our already long history of working together.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dan Whitt'.

Dan Whitt

Cc: Terelle Beaver
Jeana Hardin

EXHIBIT Z

From: Dan Whitt <dan@professionalnetworks.com>
Date: Wed, 24 Jun 2009 11:06:16 -0400
To: jeana.hardin@cherokee.k12.nc.us<jeana.hardin@cherokee.k12.nc.us>
Cc: Phillip Colvard<phillip@professionalnetworks.com>; Jeff Gaura<jeff@professionalnetworks.com>
Subject: [Defender Restored] Call Manager

With the borrowed Cisco Call Manager closing in on its last days at CCS, I wanted to reiterate to you a conversation we had about a month ago regarding this part of the project.

We can come in and install your Call Manager servers as a part of the overall eRate project, without having to schedule anything beyond that. If at some point down the road everything falls apart with this year's eRate funding, then CCS would at that point be liable for the USAC portion of whatever product and labor we spent toward the Call Managers that USAC has already paid for. But we have not been advised by legal counsel nor have we communicated to CCS that we have to do all of the eRate project or nothing. Since we are under contract with USAC for this project and have not been advised by USAC to the contrary, we cannot pull a part of the project out and do it separately, billing CCS, especially since we have already billed USAC for it. But, we can go ahead and complete any part of the project under the current plan as long as we know that CCS will pay us for their portion (roughly 10%) of that part of the project when it is completed.

As we have stated many times, we want to work with CCS on this sticky eRate situation any way we can. But, we want to know that you want to work with us, too. If CCS changes the SPIN numbers on next eRate year's 471's, and works toward getting as much as possible of this year's eRate project "squared away" with USAC, then PNC will know that CCS wants to work with us also, and we can be as flexible as possible. I would love to have a few minutes tomorrow for us to strategize together so you can guide me on how we can communicate our heart to work with CCS so that your management knows that we are not greedy or stubborn or after some kind of all-or-nothing outcome, but want to work toward something that helps us all move forward.

Thanks!

Dan Whitt
980-297-7141
Professional Network Consultants
Charlotte, NC

Integrating voice, video and data into a single resilient, reliable network

See Cisco's Unified Communications in Action

EXHIBIT AA



Board of Education

Andy Barnett
Chairman
Infield L. Clonts
Vice Chairman
Cobbie Hogan
Vice
Dr. David Ackerman
Linda W. Arrowood
Rick C. Brinke
Candace H. Shields

Dr. Stephen E. Lane
911 Andrews Road, Cherokee, NC 28906
(828) 837-2722 • Fax (828) 837-5799
www.cherokee.k12.nc.us

June 11, 2009

TO: Schools and Libraries Division
FROM: Cherokee County School District
BEN: 127111
RE: Service Certification Request

Effective immediately, Cherokee County School District (BEN 127111) does not authorize USAC to disburse payment for Funding Year 2008 Service Provider Invoice (SPIs) on Form 471 application number 624508 without first receiving authorization via a Service Certification from the district. This request is applicable to all FF N's on Form 471 application number 624508.

Please contact me if you have any questions or require anything further to process this request.

Sincerely,

Stephen E. Lane, Ed.D.
Superintendent
stephen.lane@cherokee.k12.nc.us

EXHIBIT BB

Cherokee County School District

911 Andrews Road, Murphy, NC 28906

Universal Service Funding ("E-rate") E-rate Discount Rate Calculation Survey Methodology Review

October 23, 2009

**FUNDS FOR
LEARNING**

BRINGING TECHNOLOGY TO THE CLASSROOM

911 Andrews Road, Murphy, NC 28906
Phone: 813 241 7000

Phone: 404 521 4146
Fax: 404 241 7000

www.FundsForLearning.com
AAA Fund Management

Table of Contents

1.0	Executive Summary	1
2.0	Report Background	2
3.0	E-rate Program Background.....	3
4.0	CCSD E-rate Funding History	4
5.0	CCSD Discount Rate History	5
6.0	FCC Form 471 Discount Calculations	6
6.1	Discount Percentage Regulations	6
6.2	Discount Matrix.....	7
6.3	FCC Form 471-Determining Student Eligibility for NSLP.....	8
6.3.1	NSLP.....	8
6.3.2	SURVEY.....	8
6.3.3	Eligibility Projections Based On Surveys.....	9
6.3.4	Survey Document Retention.....	10
6.4	FCC Form 471 Certification.....	10
6.5	Priority 2 Discount Threshold	11
7.0	CCSD Survey Document.....	12
8.0	Funds For Learning Survey Review And Tabulation.....	14
9.0	FFL Survey Tabulation Results	15
10.0	Tabulation Findings	18
10.1	FY2008.....	19
10.2	FY2009.....	19
10.3	Survey Synopsis	21
10.4	Status of FY2008 Project.....	21
10.5	Recommendation.....	21
	Attachment A.....	Sample SLD Survey
	Attachment B.....	FY2008 CCSD Survey
	Attachment C.....	FCC Record Retention Requirements

FFL Scope of Work Statement

Funds For Learning (FFL) is compliance firm specializing in the Universal Service Funding program for Schools and Libraries (E-rate). FFL was specifically hired by CCSD because of its familiarity with E-rate regulations and processes. FFL is not a legal or financial auditing firm. Where appropriate, we have applied the general methodology that the USF program auditors use when reviewing applicants' documentation and compliance with rules. Additionally, we have drawn on the reports and findings of other program auditors, and our knowledge of the program's history, to provide additional context to our review of the Cherokee County School District survey methodology.

FFL has used the information provided to it by CCSD to reach the conclusions, recommendations and professional opinions presented in this report. No attempt has been made to provide third-party validation of the information.

FFL uses its best efforts to ensure that all of the E-rate-related information that it provides is accurate, current and complete. However, because of the dynamic nature of E-rate program rules, regulations and procedures, FFL neither warrants nor guarantees the accuracy, currency or completeness of this information.

FFL Professional Standards

FFL has established and implemented several self-imposed professional consulting standards for our firm and its employees. Although no formal regulation exists governing E-rate consultants, FFL voluntarily complies with the following Code of Conduct, Code of Ethics, and Code of Client Confidentiality.

FFL Code of Conduct

FFL understands that conflicts of interest or the appearance of impropriety can negatively impact customer trust and/or E-rate application success. Therefore, FFL has a comprehensive Code of Conduct to which its staff complies. Below are several key elements of this code¹:

- FFL does not sell or offer any E-rate eligible services
- FFL does not have a SPIN (Service Provider Identification Number)
- FFL does not prepare technology plans.
- FFL does not advise clients on what technology to procure or from whom to purchase it.
- FFL does not receive payment from service providers based on their sales to applicants.

FFL first developed a formal, internal code of conduct in 2002; and, in 2004, FFL became the first E-rate consultancy to publish a code of conduct and to submit itself to public accountability in this manner.

FFL Code of Ethics

FFL is a founding member of the E-rate Management Professionals Association (E-mpa™). FFL CEO, John Harrington, serves as the current E-mpa™ president. This association has developed a comprehensive Code of Ethics for E-rate consulting firms. This Code of Ethics is based on similar codes established for Certified Public Accountants. As a member of E-mpa™, FFL agrees to comply with the E-mpa™ Code of Ethics².

FFL Code of Client Confidentiality

FFL places a high-value on client confidentiality. FFL employees frequently receive private and confidential information concerning its client customers. FFL does not to share that information with other parties. Furthermore, as a condition for employment, each FFL staff member agrees to and signs a strict client confidentiality agreement.

¹ The entire code of conduct is available at <http://www.fundsforlearning.com/content/view/908/41/>

² The E-mpa™ Code of Ethics is available at <http://www.e-mpa.org/code-of-ethics/>.

1.0 Executive Summary

The Universal Service Funding Program for Schools and Libraries, commonly referred to as the E-rate program, provides discounts on telecommunications services, Internet access, and the purchase of certain information technology infrastructure. The level of discount support provided by the E-rate program is based on the eligibility of students for the National School Lunch Program.

Historically, Cherokee County School District (CCSD) has qualified for a 76% E-rate discount rate. This has resulted in CCSD receiving \$150,000-to-\$300,000 in E-rate discounts annually. However, in Funding Year 2008 (FY2008) CCSD used an alternative means of calculating its E-rate discount. This allowed CCSD to receive a 90% E-rate discount and to qualify for approximately \$2.1 million in FY2008 E-rate funds. This same alternative discount was used for the CCSD FY2009 funding requests that are currently under review by the E-rate program administrator.

Following up on an April, 2009, North Carolina Department of Public Instruction review, CCSD requested that Funds For Learning, LLC, (FFL) conduct a review of the discount rate listed on CCSD's FY2008 and FY2009 E-rate applications. CCSD asked that FFL review the methodology used to calculate the 90% discount rate and to confirm that the 90% discount rate calculation was accurate.

FFL reviewed all of the survey documents that CCSD maintained. Based on these materials, FFL was unable to validate the FY2008 and FY2009 discount rate of 90%. Depending upon a variety of factors, the correct discount rate appears to be either 79%, 80% or 83%. These revised discount rates, if accurate, would result in a reduction in funding of approximately \$1.8 million.

It is possible that the District will have other sources of data that can support a higher NSLP eligibility percentage for District students. This might increase the CCSD discount rate back to 90%; however, in the absence of any other such information, the District may be required to return E-rate funds that were improperly disbursed to CCSD as a result of the inflated discount percent rate.

FFL encourages CCSD to seek legal counsel regarding the contractual obligations associated with the FY 2008 committed funds and to coordinate with the District's financial department to quickly assess any financial implications from the E-rate application recalculations for FY 2008. FFL is available to answer any questions about the survey analysis and to provide further detail regarding the program regulations to District officials and legal counsel upon request.

2.0 Report Background

Prior to the FY2008 and FY2009 E-rate funding applications, CCSD used National School Lunch Program (NSLP) data to calculate the discount rate requested on its E-rate applications. Most of CCSD's 14 school sites had a calculated E-rate discount of 70% or 80% and the District's average shared discount rate was 76%. In preparation for E-rate FY 2008 (July 1, 2008-June 30, 2009), CCSD conducted a survey of its families to determine how many qualified for the National School Lunch Program. Upon completion of this survey, the District's new E-rate applications reported that all CCSD school sites qualified for a 90% E-rate discount and that the District's overall discount rate was 90%. This was a substantial change from all prior funding years that CCSD had participated in the E-rate program.

The increased discount rate allowed all of the District's individual school sites to qualify for funding in the internal connections (Priority 2) service category. Internal connections discounts are applied to the purchase of information technology infrastructure. Because of the high demand for these discounts, only the neediest schools receive funding commitments for internal connections purchases. In prior E-rate funding years, only one or two CCSD sites would qualify for internal connections discounts; however, in FY2008, all CCSD sites qualified. This resulted in a dramatic increase in the amount of E-rate funding received by CCSD.

In April 2009, North Carolina Department of Public Instruction (DPI) conducted a preliminary review of the Cherokee County School District's Universal Service Funding (E-rate) applications. This review was conducted at the District's request and was intended for informational purposes only. The DPI review and concluding recommendations were based on DPI's experience with FCC OIG audits. The exit notes from that review identified an issue with the discount calculation survey mechanism used on the CCSD FY2008 and FY2009 E-rate applications. DPI recommended that the CCSD re-tabulate the surveys and establish internal controls to insure accuracy and the proper documentation of survey statistics.

Based on the DPI recommendation, in June 2009, CCSD requested that Funds For Learning, LLC (FFL) conduct a review of the District's survey methodology and E-rate discount calculation. FFL is a compliance firm specializing in the E-rate program. As part of its review, FFL was asked to determine if the survey data used to increase the District's discount for FY2008 and FY2009 met the alternative mechanism survey requirements defined by USAC. This report represents FFL's findings regarding this survey.

3.0 E-rate Program Background

The Universal Service Administrative Company (USAC) is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (FCC). USAC administers the Universal Service Fund which was created by the Telecommunications Act of 1996 to ensure that consumers in all regions of the United States have access to quality telecommunications and information services at affordable rates.

The USAC Schools and Libraries Division (SLD) administers the Schools and Libraries Universal Service Support Mechanism. This mechanism (known as E-rate) provides discounts on the cost of telecommunication services, Internet access, information technology infrastructure ("internal connections") purchases and certain I.T. maintenance service. These discounts are available to most K-12 schools, as well as library systems.

E-rate is not funded through annual government appropriations. Rather, it is part of the nearly 70-year-old Universal Service Fund, and is supported by assessments on the revenues of telecommunications companies. E-rate is one of four support mechanisms funded through a Universal Service fee charged to companies that provide interstate and/or international telecommunications services. Unlike traditional USF programs, which transfer payments to and from telecommunications companies, the E-rate program involves reviewing decisions made by thousands of individual school and library applicants. Each year, the program has the capability of distributing close to 2.25 billion dollars to eligible beneficiaries. Due to the amount of money and number of beneficiaries involved with the program, it is necessary for the FCC to assure not only that the program is administered in a fair and neutral manner, but that the money is disbursed in accordance with its intended purposes.

In order to qualify for E-rate discounts, a school district applicant must:

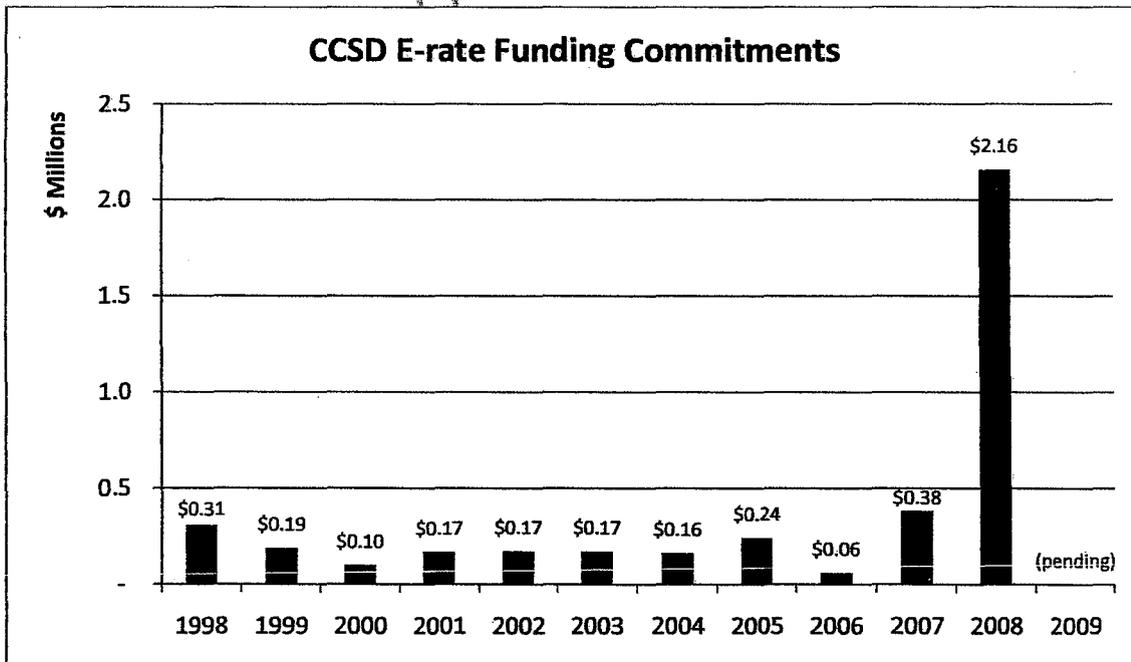
- met certain eligibility requirements
- complete a competitive bid process
- sign a contract for eligible services
- calculate properly the E-rate discount rate for each of its school locations
- submit a completed FCC Form 471 funding application to the SLD in a timely fashion

4.0CCSD E-rate Funding History

The following table and chart summarize CCSD's 12-year E-rate funding history.

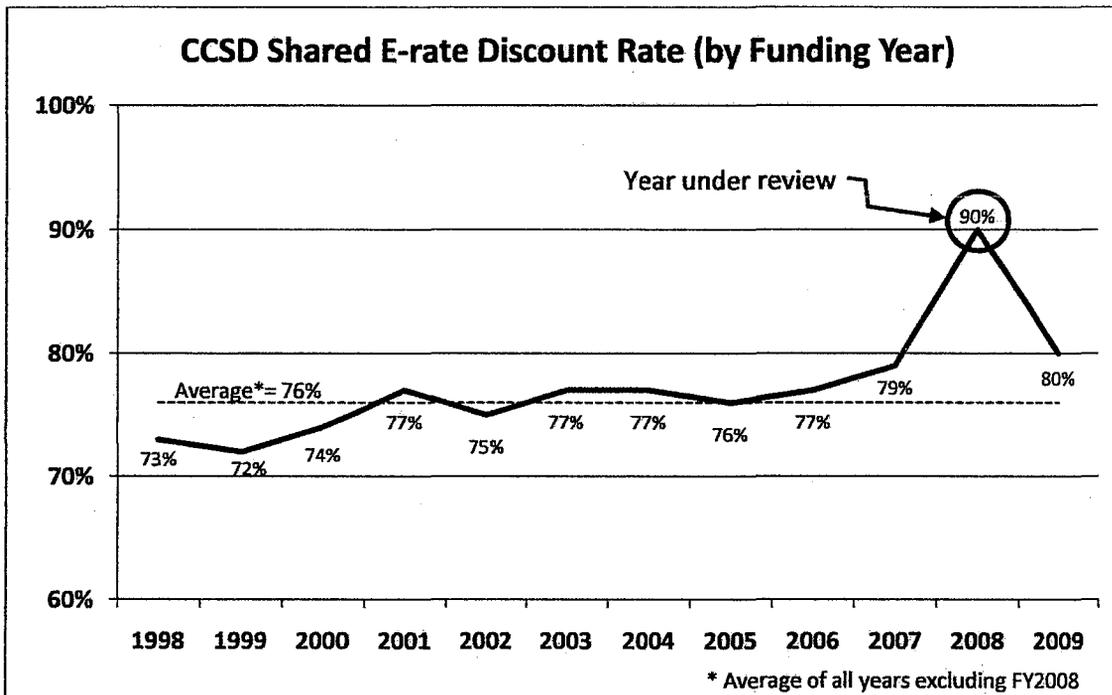
Cherokee County School District E-rate Funding History

Year	Requested	Pending	Rejected	Committed	SLD Balance	Utilized
1998	\$ 376,042.95	-	66,626.84	309,416.11	86,952.98	222,463.13
1999	188,723.40	-	-	188,723.40	109,120.49	79,602.91
2000	373,117.50	-	273,561.90	99,555.60	18,340.88	81,214.72
2001	306,462.36	-	138,696.90	167,765.46	79,545.49	88,219.97
2002	172,217.70	-	-	172,217.70	29,270.94	142,946.76
2003	172,019.46	-	-	172,019.46	31,854.44	140,165.02
2004	162,635.34	-	-	162,635.34	13,851.90	148,783.44
2005	245,808.59	-	3,192.00	242,616.59	16,354.70	226,261.89
2006	233,312.62	-	173,573.40	59,739.22	18,146.53	41,592.69
2007	2,497,577.59	-	2,113,873.26	383,704.33	9,444.31	374,260.02
2008	2,400,147.79	-	242,800.96	2,157,346.83	125,757.20	2,031,589.63
2009	2,034,906.51	2,034,906.51	-	-	-	-
Total	\$9,162,971.81	2,034,906.51	3,012,325.26	4,115,740.04	538,639.86	3,577,100.18



5.0CCSD Discount Rate History

The average “shared” E-rate discount rate for Cherokee County School District has historically been in the 70% to 80% range. In any given year, most of the school sites have a 70% or 80% site-specific E-rate discount, and 1 or 2 of the sites reach a 90% discount rate. Thus, the weighted average district discount resulted in a shared rate of 79% for FY 2007.



In preparation for FY 2008 (July 1, 2008- June 30, 2009), CCSD distributed a family survey to the student population. The survey data returned was the data used to tabulate the districts discount calculation on the FCC Form 471 applications. Prior to FY 2008, CCSD used NSLP data to tabulate the district’s discount calculation each funding year. As part of FFL’s review, FFL reviewed and calculated the districts NSLP data for the 2008 & 2009 funding years. The NSLP data did not result in a discount match or support similar results gathered through the survey. The District was unable to provide records of the original survey tabulation or detail regarding the review of the surveys returned. FFL’s understanding is that the survey was conducted by an employee no longer with CCSD. Due to the change in personnel, verification of CCSD’s survey process was not attainable. CCSD did maintain copies of all of the returned surveys and provided these surveys to FFL for review as part of this assessment. FFL reviewed each survey and tabulated the returned surveys to recreate the discount percent for the relevant funding years. Before discussing the survey structure, review and findings it is important to understand the current regulations and guidance provided.

6.0 FCC Form 471 Discount Calculations

An E-rate discount rate is calculated for each specific school site within a school district. This discount rate is based on the poverty level of the students enrolled at the school site³. Poverty levels are assessed using the National Student Lunch Program (NSLP) guidelines⁴. The E-rate program rules allow applicants to report NSLP *eligibility* numbers, rather than NSLP participation numbers.

The E-rate discount rate for a service or a purchased good is based on either the discount rate of the individual school site at which the service is delivered, or by using a shared discount rate, weighted based on the size of the student population at each individual school site receiving service. The shared discount rate is used for services that are delivered to multiple schools, such as local telephone service. Applicants use the FCC Form 471 to calculate the discount rate and list the recipients of services for support. FCC rules include a discount matrix that takes into consideration poverty level and the urban and rural location of the participating entity.

6.1 Discount Percentage Regulations

The E-rate program provides discounts to eligible schools and libraries. The discounts range from 20% to 90% of the pre-discount price for all eligible services provided by eligible providers. The discounts available to a particular school, library, or consortium of only such entities are determined by indicators of poverty and high cost.

(1) For schools and school districts, the level of poverty shall be measured by the percentage of their student enrollment that is eligible for a free or reduced price lunch under the national school lunch program or a federally-approved alternative mechanism. School districts applying for eligible services on behalf of their individual schools may calculate the district-wide percentage of eligible students using a weighted average. For example, a school district would divide the total number of students in the district eligible for the national school lunch program by the total number of students in the district to compute the district-wide percentage of eligible students. Alternatively, the district could apply on behalf of individual schools and use the respective percentage discounts for which the individual schools are eligible.

(2) The Administrator shall classify schools and libraries as "urban" or "rural" based on location in an urban or rural area, according to the following designations. (i) Schools and libraries located in metropolitan counties, as measured by the Office of Management and Budget's Metropolitan Statistical Area method, shall be designated as urban, except for those schools and libraries located

³ The discount rate is also impacted by whether the school site is considered to be a rural or urban location.

⁴ The National School Lunch Program allows students to receive free or reduced-price meals at school. The Eligibility for NSLP is calculated for each family in a school, and is based on annual family income and family size.

within metropolitan counties identified by census block or tract in the Goldsmith Modification. (ii) Schools and libraries located in non-metropolitan counties, as measured by the Office of Management and Budget's Metropolitan Statistical Area method, shall be designated as rural. Schools and libraries located in rural areas within metropolitan counties identified by census block or tract in the Goldsmith Modification shall also be designated as rural.

(3) School districts, library systems, or other billed entities shall calculate discounts on supported services described in C.F.R. § 54.502 or other supported special services described in C.F.R. § 54.503 that are shared by two or more of their schools, libraries, or consortia members by calculating an average based on the applicable discounts of all member schools and libraries. School districts, library systems, or other billed entities shall ensure that, for each year in which an eligible school or library is included for purposes of calculating the aggregate discount rate, that eligible school or library shall receive a proportionate share of the shared services for which support is sought. For schools, the average discount shall be a weighted average of the applicable discount of all schools sharing a portion of the shared services, with the weighting based on the number of students in each school. For libraries, the average discount shall be a simple average of the applicable discounts to which the libraries sharing a portion of the shared services are entitled. [C.F.R. § 54.505(b)]

6.2 Discount Matrix.

Applicants use the discount matrix to determine the correct discount level for an individual school or library outlet. According to the Code of Federal Regulation the following matrix is used to set a discount rate to be applied to eligible interstate services purchased by eligible schools, school districts, libraries, or library consortia.⁵

E-rate Discount Calculation Matrix

INCOME Measured by % of students eligible for the National School Lunch Program	URBAN LOCATION Discount	RURAL LOCATION Discount
If the percentage of students in your school that qualifies for the National School Lunch Program is...	...and you are in an URBAN area, your discount will be...	...and you are in a RURAL area, your discount will be...
Less than 1%	20%	25%
1% to 19%	40%	50%
20% to 34%	50%	60%
35% to 49%	60%	70%
50% to 74%	80%	80%
75% to 100%	90%	90%

⁵ [C.F.R. § 54.505(c)] The Administrator shall use the following matrix to set a discount rate to be applied to eligible interstate services purchased by eligible schools, school districts, libraries, or library consortia based on the institution's level of poverty and location in an "urban" or "rural" area

6.3 FCC Form 471-Determining Student Eligibility for NSLP

There are two primary methods that a school district can use to determine the number of students that are eligible for participation in the NSLP:

- Actual NSLP participation
- Survey/alternative mechanisms

6.3.1 NSLP

The first and most straight forward method for calculating NSLP eligibility is to simply review student participation records. The students receiving free or reduced-price lunches are counted at each school facility. The percentage of students at a school site who receive free and reduced-price meals, in comparison to the total number of students enrolled, determines the E-rate discount.

6.3.2 SURVEY

In most cases, the number of students participating in the NSLP is lower than the actual number of students who qualify for the NSLP⁶. Therefore, a school may wish to use a separate method to measure NSLP eligibility. In one method, the school uses a survey to calculate the number of students who qualify. In order to use the survey method, certain guidelines must be met:

- The survey must be sent to all families whose children attend the school.
- The survey must, at a minimum, contain the following information:
 - Name of family and students
 - Size of the family
 - Income level of the family
- Survey income data may be used for 2 years. For example if a School District uses the survey method to calculate its discount rate for FY2010, it may use that data again for FY2011. After that, the School District must again send out surveys to all families and recalculate the requested discount rate for its Schools.

Since families qualify for the NSLP based on their income level, questions regarding participation in other income-based qualification programs may be asked on the survey. These programs include:

- Medicaid
- Food stamps
- Supplementary Security Income (SSI)
- Federal public housing assistance or Section 8 (a federal housing assistance program administered by the Department of Housing and Urban Development)
- Low Income Home Energy Assistance Program

⁶ There are numerous reasons for under participation in NSLP, including perceived social stigmas associated with free meals, poor NSLP data collection and analysis, and others.

The following alternative measures of poverty are NOT acceptable for determining E-rate discounts:

- Feeder school method. This method projects the number of low-income students in a middle or high school based on the average poverty rate of the elementary school(s) that "feeds" students to the middle or high school.
- Proportional method. This method projects the number of low-income students in a school using an estimate of local poverty.
- Extrapolation from non-random samples. This method uses a non-random sample of students chosen to derive the percentage of poverty in a school, such as those families personally known by the principal ("Principal's method") or the families of students who apply for financial aid (a non-random sample).
- Title 1 eligibility. This method uses eligibility for Title 1 funds as the criterion for estimating the level of poverty in a particular school. Some measures of poverty eligible under Title 1 are indirect estimates of poverty, and do not necessarily equate to the measure of poverty for E-rate, namely eligibility for NSLP.

Furthermore, a school may NOT use their NSLP applications as a survey. An approved, sample survey provided by the SLD is included in this report for further reference. (See Attachment A.)

6.3.3 ELIGIBILITY PROJECTIONS BASED ON SURVEYS

A school district typically will count the number of students at a school site who qualified for the NSLP based on the survey results and compare that number to the overall school enrollment. This percentage is used to calculate NSLP eligibility:

$$\frac{\text{Count of Students Eligible for NSLP (based on survey)}}{\text{Student Enrollment}} = \text{NSLP Eligibility \%}$$

If, however, 50% or more of the surveys are returned, the school may project the survey results out and use that calculation as the number of students that qualify. In this revised method, the NSLP eligibility is based on the number of students eligible for NSLP expressed as a percentage of the students represented in the survey results:

$$\frac{\text{Count of Students Eligible for NSLP (based on survey)}}{\text{Count of Students Returning Surveys}} = \text{NSLP Eligibility \%}$$

For example, if a school has 100 families (and each family has 1 student to simplify the math) and of those, 75 families return the survey. The school has had more than 50% of the surveys returned. Of the 75 families, 25 students (or 33%) qualify for the NSLP. Instead of reporting 25 students

qualify; the school may take 33% of the 100 total surveys, or report 33 students as the number of students that qualify.

6.3.4 SURVEY DOCUMENT RETENTION

If the survey method is used, the school district must maintain copies of the surveys for 5 years after the last date services were received. For example, assume that a District used surveys to calculate the FY2010 discount rate and then used that same data again for FY2011. The last date to receive service for recurring monthly services in FY2011 is June 30, 2012. The last date to receive service for internal connections purchases would be September 30, 2012, or even later if those projects received any service deadline extensions. Because the surveys would need to be held for 5 years after the last FY2011 service, it may be September 30, 2017, or later before the surveys could be released.

6.4 FCC Form 471 Certification

During the course of completing and submitting the FCC Form 471 applications for both FY 2008 & FY 2009, CCSD signed certifications which acknowledged compliance and attested to specific program regulations. CCSD acknowledged and certified 14 items on its Form 471 applications including the following:

I certify that I will retain required documents for a period of at least five years after the last day of service delivered. I certify that I will retain all documents necessary to demonstrate compliance with the statute and Commission rules regarding the application for, receipt of, and delivery of services receiving schools and libraries discounts, and that if audited, I will make such records available to the Administrator. I acknowledge that I may be audited pursuant to participation in the schools and libraries program.

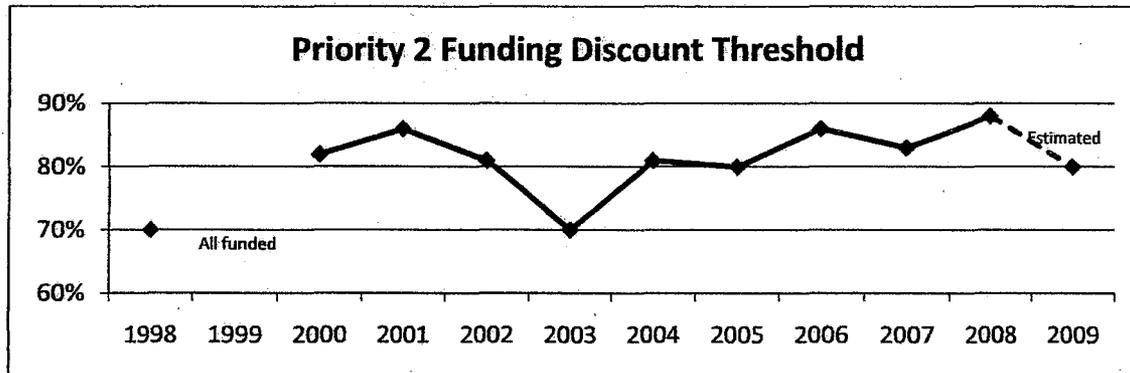
I acknowledge that the discount level used for shared services is conditional, for future years, upon ensuring that the most disadvantaged schools and libraries that are treated as sharing in the service, receive an appropriate share of benefits from those services.

I certify that this funding request does not constitute a request for internal connections services, except basic maintenance services, in violation of the Commission requirement that eligible entities are not eligible for such support more than twice every five funding years beginning with Funding Year 2005 as required by the Commission's rules at 47 C.F.R. Sec. 54.506(c)

6.5 Priority 2 Discount Threshold

In all but one year of its history, E-rate demand has exceeded the availability of funds. The FCC has established that telecommunications and Internet access funding applications receive first priority over internal connections and basic maintenance discounts. Funding requests for internal connections and for basic maintenance are given second priority and are processed after adequate funds have been allocated for telecommunications and Internet access service.

Request for internal connections and basic maintenance discounts, therefore, are referred to as "Priority 2" funding. Because there are insufficient dollars available to fund all of these requests, they are prioritized based on the E-rate discount associated with the school site or school district seeking the funds. Higher discount funding requests are funded first. Lower discount rate requests wait. Each year a "discount threshold" is set. This marks the lowest discount rate for which Priority 2 funding requests can be honored. The chart below shows the history of the Priority 2 discount threshold.



The discount threshold has averaged in the mid-80% range over the past several years. It should also be pointed out that the FY2008 discount threshold is currently set at 88%⁷.

⁷ FFL anticipates that the final FY2008 Priority 2 discount threshold will be 87%.

7.0CCSD Survey Document

The survey created by CCSD (Attachment B) did not replicate the sample survey provided by USAC. The CCSD survey template did include a place for the participant to write in the family name and student name(s), however the family size and income level was a pre-populated template with the Income Eligibility Guidelines from the Federal Poverty Guidelines used for Free and Reduced Meals. Though the income data in the survey is the appropriate measure for establishing F&R meals, the survey instructions were vague and based on the results, obviously unclear to many survey participants. This was evident due to the varied responses upon review of the survey material. Furthermore, the survey instructions indicated that the survey participant could attempt to answer the questions and skip any that they did not know the answer to.

Examples of the misinterpretations of the survey instructions follow:

- Participant circled the family size and circled an income other than the income amount listed next to the family size
- Participant circled more than one income from various columns
- Participant did not circle any family size
- Participant did not circle family size or income
- Participant failed to complete child name
- Child name appeared did not match any enrolled student in the district (names such as "Little girl Huskin", "cornbread", etc.)
- Same child listed on multiple survey documents for multiple schools sites

The CCSD survey prepared and used included a list of the following 8 questions:

1. Is your family's income equal to or less than any of the amounts listed next to the number you circled?
2. Are your children eligible for the NSLP which provides free or reduced lunches, breakfasts, snacks or milk at their school(s)?
3. Is your family eligible for food stamps?
4. Is your family eligible for medical assistance under Medicaid?
5. Does your family receive Temporary Assistance for Needy Families?
6. Does your family receive Supplementary Security Income (SSI)?
7. Does your family receive housing assistance (section 8)?
8. Does your family receive home energy assistance (LIHEAP)?

These questions were designed to identify other qualifying criteria for qualifying students in programs currently listed as acceptable alternative measures of poverty for NSLP eligibility. The survey did not ask the participant to write in the monthly income or to circle the income amounts pre-populated on the survey. The survey assumed that if a participant selected a family

size then answered Question #1 yes, that the participants' family's income was equal to or less than any of the amounts listed directly next to the family size identified. If the participant answered yes, then the assumption was that the survey application qualified. This may be the case; however, no validation of income was provided or reviewed. Income validation is not a requirement for utilization of a survey for the purposes of E-rate discounts; however, it is a requirement for NSLP qualification under the United States Department of Agriculture Food and Nutrition Services⁸. In addition, the USDA manual lists acceptable written evidence for income eligible households is most often pay stubs from employers or award letters from welfare departments or other government agencies submitted by the household to the verifying officials as confirmation of eligibility. The USDA requires that children eligible for free or reduced price meals, the child must be directly certified or the household must submit a complete application and be either categorically eligible or income eligible, directly certified or through the schools other official sources.

As part of the analysis, FFL tabulated all surveys and reviewed each survey for completeness. FFL was not provided any documentation to describe how the district had reviewed the submitted surveys for completeness. As previously mentioned, the original survey tabulation was not available and although CCSD provided FFL with a survey tabulation that the District had created in an effort to support the discount used, FFL was unable to reconcile the tabulation results. The survey guidance provided by USAC does not provide guidance on how to conduct a survey and any measurements for evaluating its accuracy. The USDA does provide guidance for participation in the NSLP program and FFL would recommend that CCSD review the NSLP application guidance to develop an internal survey procedure for future survey analysis. The NSLP program requires that NSLP applications be reviewed for completion. If an application is incomplete the USDA instructs the Local Education Agency (LEA) to make reasonable efforts to contact the household in order to obtain or clarify required information.

Similarly, FFL would recommend that for future survey analysis that CCSD include a written process of review and follow-up for any survey identified as incomplete. In addition to reviewing the survey for completeness, FFL recommends that CCSD document the process for using other qualifying programs and any procedures defined to verify that students are all accounted for and not duplicated in any tabulation. CCSD does maintain a list of students considered direct certified by the state and is able to include these students as qualifying for free and reduced for E-rate purposes regardless of their NSLP participation.

⁸ The USDA provides the income eligibility requirements for participation in the NSLP:
<http://www.fns.usda.gov/cnd/Governance/notices/iegs/EligibilityManual.pdf>

8.0 Funds For Learning Survey Review And Tabulation

Funds For Learning reviewed every survey provided and tabulated the survey data into a master spreadsheet. All items on the survey were tabulated and reviewed and compared to reduce the margin of error. Items compared included the participant address, student names, family names, school location etc. In addition to the reconciliation of multiple surveys and verification of family data, FFL reviewed and tabulated the corresponding answers for each of the requested questions. If an annual salary level was identified, this too was noted. All surveys identified to have areas of concern or conflicting data were flagged and notes were made. In all, FFL identified approximately 240 surveys with conflicts or potential concerns.

The following table provides a summary of the survey count by school sites.

School Name	USF BEN	Enroll (Dec 2007)	Student Survey Count	Survey Resp. Rate
Andrews Elem	30313	357	318	89%
Andrews High	30316	275	172	63%
Andrews Middle	30314	232	182	78%
HDES-MS	16041477	186	161	87%
HDHS	30328	206	138	67%
Marble Elem.	30320	105	99	94%
Martins Creek	30330	217	158	73%
Mountain Youth	205274	51	27	53%
Murphy Elem	30326	460	394	86%
Murphy High	30322	545	303	56%
Murphy Middle	30323	359	263	73%
Peachtree Elem	30327	179	169	94%
Ranger	30329	388	385	99%
TCEC	16042960	70	46	66%
Total		3,630	2,815	

As indicated in the right hand column, each school had more than the 50% response rate required for using the survey eligibility projection method.

9.0 FFL Survey Tabulation Results

Funds For Learning reviewed the surveys "at face value." The data presented on the surveys was assumed to be a true and accurate representation of each family's income level, size, and participation in other funding programs. All survey participants were assumed to have interpreted correctly the intent of the survey, and FFL did not verify the data reported on the surveys.

The following items are noted regarding the tabulation results:

- The required 50% survey return rate was achieved at each school site.
- Survey Result #1
 - 9 of the 14 sites qualify for a 80% discount
 - 5 of the 14 sites qualify for a 90% discount
 - Shared discount rate of 83%
 - Uses the most liberal approach and assumes a "Y" on any of the eight question indicates eligibility for NSLP
- Survey Result # 2
 - 13 of the 14 sites qualify for a 80% discount
 - 1 of the 14 sites qualifies for a 90% discount
 - Uses a more conservative approach and calculates NSLP eligibility based solely on survey question #1

Even with the broad interpretation of the survey results, and assuming all surveys are accurate, it appears that a majority of the sites did not qualify for the 90% discount rates originally reported. Furthermore, FFL's tabulation does not match the results reported on the District's Form 471 applications. FFL hypothesizes that the tabulation discrepancies either occurred from a lack of tabulation or from the improper manner in which they were tabulated. The original survey results may not have been reviewed on a site-by-site basis. CCSD was unable to provide any tabulation report of the original survey and FFL was not able to compare the results to the re-tabulated data.

As noted above in the tabulation results, FFL applied two sets of data when reporting the results in an effort to recreate the original tabulations results reported by the District. The original survey data that the District reported for the FY 2008 & 2009 E-rate FCC Form 471 applications resulted in all 14 sites qualifying at a 90% discount at the site level, thus also resulting in a district shared discount of 90%. The Districts NSLP data gathered at the same time period and typically used to calculate E-rate eligibility was significantly lower with only 2 sites qualifying for 90% and the remaining 12 at 80% or below. The December 2007 official NSLP data supports a shared district wide rate of only 79%.

Cherokee County Schools

Analysis of Fall 2007 Universal Service Funding ("E-rate") Survey Results

School Name	USF BEN	Enroll (Dec 2007)	Student Survey Count	Survey Resp. Rate	#1 Yes to 1 or more Q's			#2 Yes to Question #1			#3 NSLP		
					Count	%	E-rate Discount	Count	%	E-rate Discount	Count	%	E-rate Discount
Andrews Elem	30313	357	318	89%	242	76%	90%	206	65%	80% *	238	67%	80% *
Andrews High	30316	275	172	63%	115	67%	80% *	96	56%	80% *	146	53%	80% *
Andrews Middle	30314	232	182	78%	137	75%	90%	115	63%	80% *	140	60%	80% *
HDES-MS	16041477	186	161	87%	116	72%	80% *	104	65%	80% *	122	66%	80% *
HDHS	30328	206	138	67%	102	74%	80% *	89	64%	80% *	97	47%	70% *
Marble Elem.	30320	105	99	94%	83	84%	90%	71	72%	80% *	79	75%	90%
Martins Creek	30330	217	158	73%	115	73%	80% *	107	68%	80% *	139	64%	80% *
Mountain Youth	205274	51	27	53%	25	93%	90%	22	81%	90%	45	88%	90%
Murphy Elem	30326	460	394	86%	290	74%	80% *	246	62%	80% *	291	63%	80% *
Murphy High	30322	545	303	56%	187	62%	80% *	164	54%	80% *	229	42%	70% *
Murphy Middle	30323	359	263	73%	164	62%	80% *	148	56%	80% *	182	51%	80% *
Peachtree Elem	30327	179	169	94%	138	82%	90%	119	70%	80% *	114	64%	80% *
Ranger	30329	388	385	99%	283	74%	80% *	248	64%	80% *	227	59%	80% *
TCEC	16042960	70	46	66%	28	61%	80% *	24	52%	80% *	30	43%	70% *
Total		3,630	2,815		2,025			1,759			2,079		

* Indicates site with discount rate less than 90% originally reported.

Shared Discount Rate

83.1%

80.1%

78.9%

In FFL's tabulation Survey Results #1, FFL accepted any "Y" answer as a qualification for eligibility. This tabulation effort resulted in 9 of the 14 sites qualifying at 80% and the remaining 5 sites qualifying at 90%. In FFL tabulation Survey Result # 2, FFL based eligibility only on a "y" to question 1 on the survey which yielded a much lower discount for all but one site. Only one site maintained the 90% discount and the remaining sites at 80%. The Districts NSLP data (3) resulted in a lower shared average however two sites did reach the 90% threshold qualifying an additional site for Internal Connections. The NSLP data is gathered through the Districts reimbursement claim reports on a monthly basis and matched with the Monthly Principals Report (enrollment) for the same time period to realize a discount for NSLP.

CONFIDENTIAL

10.0 Tabulation Findings

As a result of its survey tabulation, it is FFL's opinion that the District survey results do not support the reported E-rate discount utilized for FY 2008 and FY 2009. The District may have other qualifying data from acceptable alternative measures of poverty that could be reviewed and compared to the tabulation for any sites not at the 90% discount threshold. Participation in one or more of the following programs is currently acceptable as an alternative to NSLP eligibility:

- Medicaid
- Food stamps
- Supplementary Security Income (SSI)
- Federal public housing assistance or Section 8 (a federal housing assistance program administered by the Department of Housing and Urban Development)
- Low Income Home Energy Assistance Program

If the District has students that qualify via "Direct Certification" these students could be reviewed and compared to FFL's tabulation results to see if any additional students could be identified as qualifying. Schools may use the sources of data that measure levels of poverty, such as TANF or need-based tuition assistance programs. However, these measures are acceptable for E-rate purposes only if the income eligibility guidelines are equal to or below the IEGs for NSLP. The District would need to verify that no student is being counted twice and that any student identified for other qualified alternative mechanisms has not already be qualified through the survey.

Unless a school is able to use a projection based survey, data used to support a particular discount level must be collected and verifiable on an individual student basis. However, data from multiple sources can be combined to complete the count of students eligible for NSLP. For example a school with a 100 students sent a survey to 100 households of these students, and 40 of those households returned the survey. The school finds the income of 20 of those 40 households, each of which has one student in the school, are at or below the IEGs for NSLP. This rate of return (40%) is too low to allow a projection based on that survey. However, the school has also matched 10 students not represented in the survey responses with siblings who are eligible for NSLP, and the school has verified that 15 additional students not represented in the survey responses participate in a need-based tuition assistance program that requires household income of participants to be below the IEGs for NSLP. The school can combine the individual results from three sources to conclude that 45% of the total enrollment, or 45 (20+10+15) of the 100 students in the school are eligible for NSLP. The school must be able to verify that it has counted each eligible student only once.

The survey results tabulated by FFL do not support the data reported and used on the Districts FY2008 and FY2009 applications. Unless the District can provide other acceptable sources of data from that time period verifying that additional students qualify, the District will need to notify USAC

of the discount calculation error and potentially return funds to USAC for funds disbursed on any FRNs associated with an incorrect discount.

10.1 FY2008

In 2008, USAC committed P2 funds for applicants at 87% or above. Applicants submitting funding requests at 86% or below were denied due to a lack of program funds. Many of the FY2008 FRNs for CCSD for P2 were requested on a site specific basis however the Districts telecommunication services, internet access and basic maintenance requests were calculated on a shared discount average. For P1 services the District can simply recalculate the funding requests using the appropriate shared discount. For P2 funding requests and basic maintenance funding requests, once recalculated, the district may be required to cancel any FRN's that fall below the funding threshold for FY2008 (87%) and return used funds. For any P2 and BM requested FRNs on a shared average falling below the threshold these funds will also need to be returned (if utilized).

The table on the following page shows the FY 2008 revised Funding Commitment Amounts under each scenario and the comparison to the original committed funds.

10.2 FY2009

For the Districts FY2009 applications during the P1 application review, Program Integrity Assurance (PIA), CCSD requested that the Schools and Libraries Division change the discount data to match the state reported NSLP documentation. The FY2009 applications are currently pending; however, FFL anticipates that CCSDs request to revise the site discount data to match the state reported NSLP data will be granted. No funds have been committed for FY2009.

Program guidance stipulates that if an applicant or service provider discovers that funds have been disbursed in error, the applicant or service provider must return those funds to USAC. To return funds to USAC a letter is sent providing the reason funds were disbursed in error and information regarding the applicant contact information, application information and a check to USAC for the total amount.⁹

⁹ <http://www.universalservice.org/si/tools/reference/returning-funds-usac.aspx> If an applicant or service provider discovers that funds were disbursed in error but that products and/or services remain to be delivered on the FRN, the funds disbursed in error should still be returned to USAC. The applicant or service provider should not wait until the preparation of the next invoice to true up the amount requested from USAC.

Cherokee County Schools
 FY2008 Original and Revised Funding Commitment Amounts for Three Scenarios

Service Provider		School site	Funding Request Number	Svc Cat	Original Funding Amount	Revised Funding Calculation		
						Scenario #1 NSLP	Scenario #2 Survey All Questions	Scenario #3 Survey Q1-only
Blue Ridge Mountain Membership Corp.		(All)	1723306	IA	\$202,878.00	\$178,081.80	\$187,098.60	\$180,336.00
Light Path Community Corp.		(All)	1757554	IC	5,040.00	-	-	-
Midwest Internet Consulting Group, Inc		(All)	1723343	IA	13,545.90	11,890.29	12,492.33	12,040.80
PhoneNet Network Services, Inc.		(All)	1759991	BM	44,423.96	-	-	-
		(All)	1760182	IC	66,852.85	-	-	-
		(All)	1757834	BM	310,774.21	-	-	-
		(All)	1760217	IC	390,721.02	-	-	-
		Andrews ES	1759787	IC	30,960.90	-	30,960.90	-
		Andrews HS	1759871	IC	135,169.53	-	-	-
		Andrews MS	1759840	IC	92,630.65	-	92,630.65	-
		Hiawassee Dam HS	1758846	IC	116,871.63	-	-	-
		Marble ES	1759746	IC	70,949.65	70,949.65	70,949.65	-
		Martins Creek ES	1759708	IC	97,703.95	-	-	-
		Murphy ES	1758668	IC	134,100.33	-	-	-
		Murphy HS	1758563	IC	257,217.08	-	-	-
		Murphy MS	1758759	IC	98,468.42	-	-	-
Ranger ES/MS	1759911	IC	89,038.75	-	-	-		
Total					\$2,157,346.83	\$260,921.74	\$394,132.12	\$192,376.80

Shared Discount Rate	90%	79%	83%	80%
Difference from Original Funding Amount	-	\$1,896,425.09	\$1,763,214.71	\$1,964,970.03

10.3 Survey Synopsis

In summary, it is FFL's professional opinion that CCSD is unable to provide data supporting the original reported survey results. Although CCSD did maintain copies of the returned surveys, and it appears that a 50% survey return was achieved, neither the district nor FFL can recreate the survey tabulation results provided in the CCSD funding applications.

Document retention requirements were adopted by the Federal Communication Commission in the Fifth Report and Order dated August 4, 2004. The FCC requires that program participants retain all records related to the application for, receipt and delivery of discounted services for a period of five years after the last day of service delivered for a particular funding year. The FCC emphasizes that participants should retain all documents necessary to demonstrate compliance. As part of this report, FFL has attached a copy of the FCC Record Retention Requirements. (Attachment C) It does not appear that CCSD maintained its original survey tabulation documents.

10.4 Status of FY2008 Project

FFL is of the understanding that CCSD has notified its FY 2008 Internal Connection service provider(s) to halt further deliveries and associated invoicing to USAC until the District could complete its review of the discount data. CCSD further submitted an electronic request to USAC requesting that no further discounted invoices (SPI) be paid unless CCSD receives a service certification to approve the payment. A service certification is typically issued by USAC to confirm that the services/goods covered in a submitted invoice were delivered and installed.¹⁰ Generally, if the applicant fails to sign the certification, USAC will not pay. USAC did issue a payment after this request was submitted, against the desires of the District. At this time FFL has confirmed that no additional funds will be paid without the service certification being issued by USAC to the service provider to obtain the required authorization from the District. Of the \$2,157,346.83 committed FY 2008 funds, all have been disbursed and only \$125,757.20 is remaining.

10.5 Recommendation

CCSD will need to review the three discount scenarios (NSLP, Survey result 1, Survey result 2) and determine which data the District considers valid to support the certifications made on the associated FCC Form 471 applications. After a decision is reached, the District will need to determine which, if any, funds should be returned to USAC. Similarly, the District may determine that it should reduce or forego future E-rate reimbursements related to the funding commitments. Furthermore, the District may be able to halt services or the purchase of goods for any funding request that the District is unable to pay for in full.

¹⁰ <http://www.usac.org/sl/providers/step09/payment-process-and-status.aspx> There are some situations that require USAC to confirm that the applicant has received the services for which USAC is being billed. In those instances, USAC contacts the service provider and asks the service provider to have the applicant confirm that the services covered in the submitted invoice were delivered and installed.

Finally, FFL encourages CCSD to seek legal counsel regarding the contractual obligations associated with the FY 2008 committed funds and coordinate with the District's financial department to quickly assess any financial implications from the E-rate application recalculations for FY 2008.

FFL is available to answer any questions about the survey analysis and to provide further detail regarding the program regulations to District officials and legal counsel upon request.

CONFIDENTIAL

Attachment A
Sample SLD Survey

There have been many requests for USAC to provide guidance with respect to what information should be included as you use the income survey to determine your school's discount. Below is an example of information that may be helpful. In addition, retaining this type of information will be very helpful if USAC requests this information in the future. This example is not mandatory or intended to serve any other purpose than to respond to requests for guidance.

Please complete this survey Income Survey #: 1127 E-Rate Form 471 Application #: 123456

INCOME SURVEY FOR E-RATE CALCULATIONS

FACILITY / INSTITUTION – this section must be completed by a school official*

Name of School	Little Red School Elem
Street Address	123 USAC Lane
City, State Zip Code	Washington, DC 200036
Telephone Number	202-555-1212
Fax Number	202-555-2323
Email Address	fred@school.net

These sections must be completed by head of household or designee

1. SIZE OF FAMILY* - Please indicate the total number of individuals in your household, including all adults and children. 5
2. STUDENT INFORMATION* – please complete for each student Pre-K through 12th Grade

Last Name	First Name
1. Smith - Jones	Joe
2. Smith - Jones	[REDACTED]
3.	
4.	
5.	
6.	

Note: The applicant may hide the names of the students when submitting the completed survey to USAC.

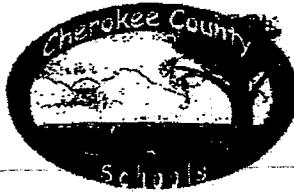
If you need more space, please use the reverse side of this survey or attach a copy of this survey marked clearly as a continuation of this information.

3. TOTAL HOUSEHOLD INCOME* – please report for all members of household:

Type of Income	Job 1	Job 2	Check if no Income
1. Gross Monthly Earnings: wages, salary, commissions	\$500	\$	<input type="checkbox"/>
2. Monthly Welfare Payments, Child Support, Alimony	\$200	[REDACTED]	<input type="checkbox"/>
3. Monthly Payments from Pensions, Retirement, Social Security	\$	[REDACTED]	<input type="checkbox"/>
4. Monthly Dividends or Interest on savings	\$	[REDACTED]	<input type="checkbox"/>
5. Monthly Worker's compensation, Unemployment, Strike Benefits	\$	[REDACTED]	<input type="checkbox"/>
6. Other Monthly (SSI, VA, Disability, Farm, other)	\$	[REDACTED]	<input type="checkbox"/>
Totals for Columns Job 1 and Job 2	\$ 700	[REDACTED]	<input type="checkbox"/>

For additional information, please refer to the USAC website at:
<http://www.universalservice.org/si/applicants/step05/alternative-discount-mechanisms.aspx>

Attachment B
FY2008 CCSD Survey



E1

E-Rate Family Survey – 2007/2008

Please complete and return the survey below. It is important that you return this form to us even if your income does not meet any of these criteria in order for the survey to be considered a valid measure.

(Please Print)²³⁷⁹

Parents/Guardians Full Name

Street Address

City

State

Zip

I. Please attempt to answer the questions listed below. Skip any questions you don't know the answer to.

Circle the number of people in your family on the chart below, including all children:

Family Size (circle one)	Annual Income	Monthly Income	Weekly Income
1	\$ 18,889	\$ 1,575	\$ 364
2	\$ 25,327	\$ 2,111	\$ 488
3	\$ 31,765	\$ 2,648	\$ 611
4	\$ 38,203	\$ 3,184	\$ 735
5	\$ 44,641	\$ 3,721	\$ 859
6	\$ 51,079	\$ 4,257	\$ 983
7	\$ 57,517	\$ 4,794	\$ 1,107
8	\$ 63,955	\$ 5,330	\$ 1,230
For each additional family member add	\$ 6,438	\$ 537	\$ 124

Q1: Is your family's income equal to or less than any of the amounts listed next to the number you circled? Yes _____ No _____

Please complete front and back of this survey

Q2: Are your children eligible for the NSLP (National School Lunch Program) which provides free or reduced lunches, breakfasts, snacks or milk at their school(s)?

Yes No

Q3: Is your family eligible for food stamps?

Yes No

Q4: Is your family eligible for medical assistance under Medicaid?

Yes No

Q5: Does your family receive Temporary Assistance for Needy Families (TANF)?

Yes No

Q6: Does your family receive Supplementary Security Income (SSI)?

Yes No

Q7: Does your family receive housing assistance (section 8)?

Yes No

Q8: Does your family receive home energy assistance (LIHEAP)?

Yes No

II. If you answered yes to any of the preceding questions, please list the names of all school children living in your home, including which school they attend.

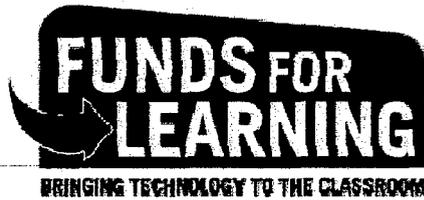
Name of Child	School	Grade
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

Return completed survey to your student's homeroom teacher no later than January 30—consider returning with the signed report card. Remember, the results of this survey will be kept confidential, you will have to contact Karen Kephart, Child Nutrition Director, Central Office 828-837-2722 Ext. 219 if you wish to enroll any of your children into the Free and Reduced Lunch Program.

Call Anthony Martin, Interim Technology Director, at 837-4950 if you have any questions about filling out this form.

Please complete front and back of this survey

Attachment C
FCC Record Retention Requirements



Records Retention

Document retention requirements were adopted by the FCC in the Fifth Report and Order dated August 4, 2004. FCC requires that program participants retain all records related to the application for, receipt and delivery of discounted services for a period of five years after the last day of service delivered for a particular funding year. The FCC emphasizes that participants should retain **all** documents necessary to demonstrate compliance. The items listed below noted with an * are required documents to be retained as specified in the Fifth Report and Order.

Pre-Bidding Process

- *Letters of Agency
- *Technology Plan
- *Technology Plan Approval Letter
- *Signed Copies of E-Rate Consulting Agreements (if applicable)

Bidding Process

- *RFP's (including evidence of publication date)
- *Evaluation criteria including weighting process
- *Bid evaluation worksheets
- *All written correspondence (including emails) between applicants and prospective bidders
- *All submitted bids (including losing bids)
- *All documents related to the selection of the service provider

Contracts

- *Contracts - signed and dated by both parties
- *Contract addendums – signed and dated by both parties (if applicable)
- *Any other form of agreements between the service provider and applicant

Application Process

- *All documents used to support discount percentage rate sought (National School Lunch Program eligibility reports)
- *Approved Budget to support the ability to pay non-discounted portion of services
- *Approved Budget to support hardware and software resources for effective use of services sought (computers, maintenance, electrical connections)
- *Approved Budget to support staff development/training for services sought
- *All documents used to prepare Item 21 Attachment (description of services – FCC Form 471)

Purchase and Delivery of Services

- *Purchase requisitions
- *Purchase Orders
- *Packing slips
- *Dated delivery and installation records (indicating where/when equipment was delivered and installed)

Invoicing

- *All invoices for services requested
- *Proof of your payment to vendor for non-discounted portion (accounts payable records, service provider statements, bank statement, copy of check to vendor, ACH transaction record)
- *Copy of vendor payment (check) to you for BEAR reimbursements (if applicable)

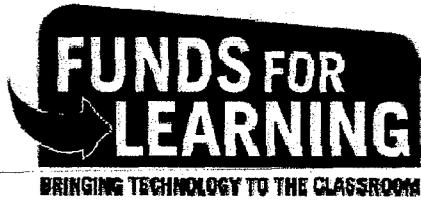
Inventory

- *Asset and Inventory records tracking internal equipment location (indicate on the equipment tag: FRN, site, whether or not purchased with E-rate funds, FY, etc.)
- *Asset and inventory records tracking equipment transfers within three years of purchase, with documentation outlining the necessity for the transfer (i.e.; school closing)

Forms and Rule Compliance

- *FCC Form 470 and certification page (including all attachments/documents submitted to SLD)
- *FCC Form 470 Receipt Notification Letters

- *FCC Form 471 and certification page (including all attachments/documents submitted to SLD)
- *FCC Form 471 Receipt of Acknowledgement Letters
- *Funding Commitment Decision Letters
- *FCC Form 479
- *FCC Form 486
- *FCC Form 486 Notification Letter
- *FCC Form 500
- *FCC Form 500 Notification Letter
- *FCC Form 472 BEAR (including all attachments/documents submitted to SLD)
- *FCC Form 472 BEAR Notification Letters
- *Service Extension Requests
- *SPIN change requests
- *SPIN change approval letter (may be sent to you electronically via email)
- *Service Substitution Requests
 - *Service Substitution approval documentation (may be sent to you electronically via email)
- *All written correspondences with/between Program Integrity Assurance (PIA) including email
- *All documentation submitted to PIA, (include fax confirmation receipt if submitted via fax, certified mail receipts if mailed, email receipt documentation displaying date/time received by SLD)
- *Selective Review documents (if applicable)
- *Invoicing Review documents (if applicable)



Records Retention

Document retention requirements were adopted by the FCC in the Fifth Report and Order dated August 4, 2004. FCC requires that program participants retain all records related to the application for, receipt and delivery of discounted services for a period of five years after the last day of service delivered for a particular funding year. The FCC emphasizes that participants should retain **all** documents necessary to demonstrate compliance. The items listed below noted with an * are required documents to be retained as specified in the Fifth Report and Order.

Pre-Bidding Process

- *Letters of Agency
- *Technology Plan
- *Technology Plan Approval Letter
- *Signed Copies of E-Rate Consulting Agreements (if applicable)

Bidding Process

- *RFP's (including evidence of publication date)
- *Evaluation criteria including weighting process
- *Bid evaluation worksheets
- *All written correspondence (including emails) between applicants and prospective bidders
- *All submitted bids (including losing bids)
- *All documents related to the selection of the service provider

Contracts

- *Contracts - signed and dated by both parties
- *Contract addendums – signed and dated by both parties (if applicable)
- *Any other form of agreements between the service provider and applicant

Application Process

- *All documents used to support discount percentage rate sought (National School Lunch Program eligibility reports)
- *Approved Budget to support the ability to pay non-discounted portion of services
- *Approved Budget to support hardware and software resources for effective use of services sought (computers, maintenance, electrical connections)
- *Approved Budget to support staff development/training for services sought
- *All documents used to prepare Item 21 Attachment (description of services – FCC Form 471)

Purchase and Delivery of Services

- *Purchase requisitions
- *Purchase Orders
- *Packing slips
- *Dated delivery and installation records (indicating where/when equipment was delivered and installed)

Invoicing

- *All invoices for services requested
- *Proof of your payment to vendor for non-discounted portion (accounts payable records, service provider statements, bank statement, copy of check to vendor, ACH transaction record)
- *Copy of vendor payment (check) to you for BEAR reimbursements (if applicable)

Inventory

- *Asset and Inventory records tracking internal equipment location (indicate on the equipment tag: FRN, site, whether or not purchased with E-rate funds, FY, etc.)
- *Asset and Inventory records tracking equipment transfers within three years of purchase, with documentation outlining the necessity for the transfer (i.e.; school closing)

Forms and Rule Compliance

- *FCC Form 470 and certification page (including all attachments/documents submitted to SLD)
- *FCC Form 470 Receipt Notification Letters

- *FCC Form 471 and certification page (including all attachments/documents submitted to SLD)
- *FCC Form 471 Receipt of Acknowledgement Letters
- *Funding Commitment Decision Letters
- *FCC Form 479
- *FCC Form 486
- *FCC Form 486 Notification Letter
- *FCC Form 500
- *FCC Form 500 Notification Letter
- *FCC Form 472 BEAR (including all attachments/documents submitted to SLD)
- *FCC Form 472 BEAR Notification Letters
- *Service Extension Requests
- *SPIN change requests
- *SPIN change approval letter (may be sent to you electronically via email)
- *Service Substitution Requests
 - *Service Substitution approval documentation (may be sent to you electronically via email)
- *All written correspondences with/between Program Integrity Assurance (PIA) including email
- *All documentation submitted to PIA, (include fax confirmation receipt if submitted via fax, certified mail receipts if mailed, email receipt documentation displaying date/time received by SLD)
- *Selective Review documents (if applicable)
- *Invoicing Review documents (if applicable)

EXHIBIT CC

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington D.C. 20554**

In the Matter of)	
)	
Request for Review of the)	CC Docket No. 02-6
)	CC Docket No. 96-45
Decision of the)	
Universal Service Administrative Company)	File No. _____
)	
By)	
)	
Cherokee County School District)	
)	

AFFIDAVIT OF STEPHEN E. LANE

Stephen E. Lane states as follows for his Affidavit in the above-captioned proceeding:

1. I am the Superintendent of the Cherokee County School System ("Cherokee") and have worked for Cherokee in this capacity since July 2008.
2. I have personal knowledge of all matters set forth in this Affidavit.
3. I am over the age of eighteen.
4. Anthony Martin was Cherokee's Wide Area Network ("WAN") Engineer from January 4, 2007 to June 30, 2009. When Cherokee's previous Technology Director left, Mr. Martin was hired to serve as Interim Technology Director, as well.
5. In his capacity as Interim Technology Director, Mr. Martin was in charge of administering the E-rate program.
6. To my knowledge, Mr. Martin had no prior experience administering an E-rate program. He obtained significant information and guidance from others outside of our school district during the Funding Year 11 process and especially from Professional Network Consultants, Inc. ("PNC"), with which Cherokee had done E-rate business in the past.

7. Mr. Martin was terminated on June 30, 2009, in large part because he was not qualified to administer the E-rate program and apparently relied heavily upon Phillip Colvard, a regional sales representative of PNC, for assistance. In my opinion, Mr. Martin's acts and omissions jeopardized Cherokee's E-rate funding and E-rate reimbursement for various telecommunication purchases. I now realize that Mr. Martin's acts and omissions were substantially influenced by Mr. Colvard's advice and direction.

8. Between May 1, 2009 and May 20, 2009, PNC delivered a significant amount of telecommunication equipment (the "Equipment") to Marble Elementary School and Cherokee's Network Operations Center (the "NOC").

9. Cherokee did not accept delivery of the Equipment. In fact, we discovered the Equipment that was delivered to Marble Elementary School on the doorstep of Marble early on the morning of Monday, May 18, 2009. We realized that it must have been delivered during the weekend and left unattended on the school's doorstep until the following Monday morning.

10. Cherokee has never agreed to accept any of the Equipment from PNC without E-rate funding. Cherokee has not opened the Equipment and it remains packaged as delivered by PNC.

11. On December 8, 2009, Cherokee representatives including Chief Financial Officer Terelle Beaver, Director of Technology Jeana Hardin and I met with President and Chief Executive Officer Jeff Gaura of PNC, Dan Whitt, Chief Financial Officer of PNC, and Phillip Colvard, a regional sales representative of PNC, to discuss the return of funds drawn down by PNC from the Schools and Libraries Division (the "SLD") of the Universal Service Administrative Company ("USAC.")

12. At that meeting, I detailed the steps we had taken to verify Cherokee's 90%, including undergoing an internal audit, an audit by the North Carolina Department of Public Instruction,

and an audit completed by a compliance firm we hired, Funds for Learning. I explained to Mr. Gaura, Mr. Whitt and Mr. Colvard that none of the audits could confirm the accuracy of the 90% discount rate.

13. I then explained that, because of what we found in the audits, the E-rate funds PNC had drawn down would have to be returned to the SLD. I stated that Cherokee was willing to pay for the portion of the equipment and services had been received and accepted, the Call Manager equipment and associated installation at Mountain Youth School, Peachtree School and the NOC.

14. In response to this information, Mr. Gaura stated that PNC would need time to review this information before proceeding with our discussions. I emphasized the importance of addressing the situation and noted that, while the process may be painful, Cherokee would do its part. We agreed to schedule a meeting later in December, before Cherokee's winter break, to discuss how return the funds.

15. On December 18, 2009, Terelle Beaver, Jeana Hardin, Chris Douglas and I had a conference call with Jeff Gaura, Phillip Colvard, and Bennett Ross and another attorney with Wiley Rein, LLP, acting as counsel for PNC, to discuss the return of funds drawn down by PNC to the SLD. After PNC advised Cherokee that PNC had legal counsel on the call, I terminated the call. I agreed to attend another phone call on a future date when Cherokee legal counsel could be present.

16. I met with Mr. Martin to discuss the events surrounding Cherokees Funding Year 11 E-Rate application on March 30, 2010.

17. Mr. Martin told me during this conversation that while he was compiling surveys that Cherokee used to determine its discount rate for Funding Year 11, "Phillip Colvard was offering assistance" and that he volunteered to put a stack of surveys in order.

18. When I asked him about the arrival of equipment from PNC, Mr. Martin replied that he did not know why PNC thought its delivery of the equipment was authorized because it knew that Cherokee "had an issue" with its discount rate. Mr Martin stated that he had the understanding that we needed to prepare a requisition for an equipment delivery to authorize. He also stated that he did not authorize that equipment to ship.

19. Mr. Martin told me that he had had no contact with anyone from PNC since his employment with Cherokee was terminated. He also told me that he had been contacted by Bennett Ross, who represented himself to be "an FCC attorney." Mr. Martin stated that he participated in an interview with Mr. Ross and signed a statement prepared in large part by Mr. Ross. Mr. Martin informed me that Mr. Ross never stated that he represented PNC.

I SOLEMNLY AFFIRM UNDER PENALTIES OF PERJURY THAT THE FOREGOING IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF.

Dated: 4-12-2010

Stephen E. Lane
Stephen E. Lane, Ed.D.

Sworn to and subscribed before me
this the 12th day of April, 2010.

Brenda G. Blount
Notary Public

My commission expires: 11/12/11

EXHIBIT DD

From: Jeff Gaura [mailto:jeff@professionalnetworks.com]
Sent: Monday, October 27, 2008 3:21 PM
To: Martin, Anthony
Subject: RE: USAC response assistance, please

Anthony,

USAC deems that all spare parts (which a redundant supervisor is) are ineligible. You may not win this one. See page 15 of this document

http://www.universalservice.org/_res/documents/sl/pdf/els_archive/2008-eligible-services-list.pdf

However, I challenge you to prove me wrong on this one, and I hope that you win!

That being said, you may want to consider deleting the redundant one and select option 3....Smartnet will cover you getting a new one the next day. They are kind of pricy without erate....

From: Martin, Anthony [mailto:anthony.martin@cherokee.k12.nc.us]
Sent: Monday, October 27, 2008 10:41 AM
To: Jeff Gaura
Subject: USAC response assistance, please

Received another round of questions (only 4, actually) this past Friday. I need your help with Option 2 and third party verification of eligibility. I will past the question in next, and then I will paste my last response where I indicated consideration of review for eligibility. Let me know if I have thoroughly confused you!

II. Per your response on FRN 1758563 regarding the requested 2 Cisco Catalyst 6500 Supervisor 32 Engine are determined to be ineligible redundant supervisors.

You have indicated you do not agree to the cost allocation of the 2 ineligible Cisco Catalyst 6500 Supervisor 32 Engine for \$23,894.00, with the associated \$150.00 labor cost and the Sales tax and Gov. fees of \$806.42.

Please choose from the following options:

Option I

If you do not agree with the cost allocation, provide an alternative cost allocation identifying the cost(s) for the ineligible item(s). Such a cost allocation must be based on tangible criteria and reach a realistic result. For further information, see "Cost Allocation Guidelines for Products and Services" located in the Reference Area of the SLD Web site at: <http://www.universalservice.org/sl/applicants/step06/cost-allocation-guidelines-products-services.aspx>.

Option II

If you do not agree with our eligibility assessment of your product(s)/service(s), then you may provide third party supporting documentation to show why this product(s)/service(s) is eligible.

Option III

You may request to remove the ineligible item(s) from this FRN and place the item(s) in a new FRN. Would you like to split the FRN? _____ Yes or ___ No.

If yes, you must provide the information requested below:

- o **Modify the current Form 471 Block 5 FRN to remove the ineligible cost.**
- o **Complete Block 5 information for the original FRN (pre and post-split FRN).**
- o **Provide us with the information for the new FRN. Complete the Form 471, Block 5 attached.**

You may provide this information sending a copy of the original FRN and two (or more) completed Form 471, Block 5 filled out showing the information for the FRNs as you wish it to be after the split is completed.

MY LAST RESPONSE:

II. Per your response on FRN 1758563 regarding the requested 2 Cisco Catalyst 6500 Supervisor 32 Engine are determined to be ineligible redundant supervisors.

Please indicate if you agree to remove, from the FRN amount, the 2 ineligible Cisco Catalyst 6500 Supervisor 32 Engine for \$23,894.00. _____ Yes ___X___ No

The supervisor cards provides the "brains" for the Catalyst 6500 chassis. Without the Sup 32 cards, the chassis will not perform any functionality at all. The Catalyst 6500 is a mandatory product for this infrastructure improvement. BOTH Supervisor 32 cards are needed to perform properly due the expanse of our county layout. After more review of the evolving needs of our district, both supervisor engines are needed to manage the growing traffic and ability to properly process network requests of various requirements most efficiently for our educational curriculum demands. We would ask you to reconsider the response that was due Aug. 25 and reinstate the \$150 labor cost and the Sales tax and Gov. fees of \$806.42 and allow both Sup 32 engines for proper utilization of the Catalyst 6500 in our infrastructure.

If yes, please also provide the cost of labor, and taxes and fees associated with the ineligible 2 redundant supervisors which should also be removed from the FRN amount.

My response is due by Nov. 8

Thanks,

ASM

Anthony S Martin
WAN Engineer
Network Operations
Cherokee County Schools
2413 Airport Rd
Marble NC 28905
828-837-4950