2012 ANNUAL REPORT

USAC
Universal Service Administrative Company

Uniting Knowledge, Experience, and Innovation

USAC administers the four universal service programs — High Cost, Lifeline, Rural Health Care, and Schools and Libraries. USAC also collects universal service funds to support these programs under terms defined by the Telecommunications Act of 1996, the Federal Communications Commission (FCC), and its bureaus and offices.

CONTENTS

2 Chairman and Acting CEO Letter
4 Fund Administration
6 High Cost Program
8 Lifeline Program
10 Rural Health Care Program
12 Schools and Libraries Program
14 Management's Discussion and Analysis
22 Report of Independent Auditors
37 Program Statistics
48 Board of Directors

USAC's story of the past year represents an overlay of unique qualifications and accomplishments as the administrator of the universal service programs. Since 1996, USAC has woven together its knowledge and experience to develop an effective approach to administering universal service collections and disbursements. Innovative and responsive, this approach enables USAC to help meet the challenges of making affordable access to telecommunications and information services available to all Americans.

The **High Cost Program** ensures that voice and broadband services, both fixed and mobile, are available to Americans throughout the nation at comparable rates. In 2012, over 1,900 eligible carriers received High Cost Program support, which benefits Americans living in remote or rural areas.

The **Lifeline Program** helps eligible low-income consumers obtain and maintain telecommunications services by discounting services provided to them by telecommunications companies. On average, about 17 million low-income households throughout the nation benefitted from the program each month.

The **Rural Health Care Program** provides reduced rates to rural health care providers (HCPs) for telecommunications and Internet services necessary for providing health care. Over 3,500 health care providers received support this year. The FCC's Rural Health Care Pilot Program is supporting the development of advanced networks for telemedicine services across the country with more than 2,600 HCPs receiving support in 2012.

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. The Schools and Libraries Program received almost 47,000 applications for support this year to bring telecommunications and Internet services to millions of students and library patrons.

APPROVED DISBURSEMENTS BY PROGRAM

HIGH COST	$ 4.15 B
LIFELINE	$ 2.19 B
RURAL HEALTH CARE*	$ 155 M
SCHOOLS AND LIBRARIES	$2.22 B
TOTAL	$ 8.71 B

* Includes RHC Pilot Program disbursements.

Chairman and Acting CEO Letter

In this annual report, you will read stories illustrating USAC's responsiveness to change and initiative in improving administration of the universal service programs. Whether driven by external requirements or by recognizing internal opportunities, USAC continues to transform itself, leveraging information technology and honing operations to increase efficiency, improve customer service, and lower administrative expenses.

USAC works closely with the Federal Communications Commission (FCC) to provide reliable, neutral data. This collaboration also enables USAC to assist in investigations and efficiently implement administrative changes. USAC's credibility relies on its relationship with the FCC, and we are proud that USAC is viewed as an important resource on universal service issues.

Over the past 18 months, the FCC issued orders and directives that required USAC to implement significant changes to the High Cost and Lifeline Programs. In the High Cost Program, the FCC adopted the Connect America Fund, which focuses on fixed voice and broadband connectivity throughout the country. A component of the Connect America Fund, the Mobility Fund, focuses on mobile voice and broadband service. The Lifeline Program made operational changes in response to the Lifeline Reform Order, such as developing systems and procedures for detecting and de-enrolling duplicate subscribers.

The FCC also modernized the Rural Health Care Program in December by creating the Healthcare Connect Fund, which will expand access to advanced broadband networks for health care providers serving rural areas across the country. As we move into 2013, USAC staff is hard at work crafting procedures and processes to support the FCC's reforms.

USAC spent a large part of 2012 building internal capacity in the Schools and Libraries Program to insource its information technology infrastructure and operations — a move that will result in substantial cost savings and improved customer service, quicker reviews, and faster commitments to program applicants.

USAC continues its focus on program integrity with expanded compliance activities, including more audits and payment assessments and extensive data validation operations. USAC also continued refining its outreach activities and completed a multi-year redesign of its website so that visitors could more easily find the information they need.

We are pleased to observe that USAC has matured into an expert administrator using its knowledge and experience to respond to business challenges and its innovative spirit to develop full, effective solutions. USAC's focus on excellent customer service, improved efficiency, and lower costs made 2012 an important year for our continued development as an organization.

Our commitment to continuous improvement allows USAC to remain flexible and to move quickly, adapting to change for the benefit of all universal service stakeholders. Our experience, our people, and guidance from our Board of Directors made this success possible. Looking forward, we are confident that USAC is in the best possible position to administer the universal service programs for many years to come.

Dr. Brian L. Talbott
Chairman of the Board

D. Scott Barash
Acting Chief Executive Officer

Fund Administration

Collecting and disbursing universal service support is the core of USAC's mission. USAC made a number of improvements in 2012 to streamline processes while maintaining focus on audits and program integrity.

The FCC asked USAC to begin transferring debts owed for universal service to the U.S. Treasury Department by May 31, 2012. USAC met this deadline and has established a reliable practice of notifying carriers with delinquent debts about the consequences of failing to pay.

USAC's finance team increased its outreach activities to universal service contributors and recipients of universal service support. USAC sent email notices to over 21,000 stakeholders to help them better understand their obligations, filing deadlines, and changes in collections or disbursement processes.

USAC made upgrades to its online filing portal in early 2012 and notified users that it would require new authentication procedures. USAC notified users via email, on its website, and in program-specific newsletters.

USAC also overhauled its website to make universal service program content easier to find and understand, including creating separate sections for contributors and service providers. In November, the FCC changed the service provider form, FCC Form 498, and USAC posted online learning modules to explain the changes to the form and how to properly file it.

USAC INNOVATION

WHERE DO I CLICK?

CHALLENGE
The Fund Administration section of our previous website provided lots of intertwining information for more than one audience, which caused confusion.

SOLUTION
We identified two main audiences — service providers and contributors — and created separate sections to specifically address their needs.

IMPACT
These two groups now have a clear path to navigate the website and manage all aspects of their role with USAC.

In 2012, USAC continued the Payment Quality Assurance (PQA) Program, its successful program to analyze error rates for universal service payments. PQA results continue to show that universal service programs have a low improper payment rate across all programs.

USAC also maintained its robust audit program. Under the Beneficiary and Contributor Audit Program (BCAP), USAC staff finalized over 100 audits in 2012, examining $631 million in universal service funding. By bringing the audit function in-house, USAC conducted more audits than in 2011 and saved more than $2.8 million. The FCC Office of Inspector General also conducts audits and investigations of universal service beneficiaries. USAC is evaluating its business requirements and current systems and is developing a roadmap for IT improvements for managing audits.

In 2012, USAC carried out wide-ranging outreach activities of many different kinds, reaching over 154,000 people online and in person. USAC participated in 29 professional meetings, conducted 13 live training events with nearly 2,000 attendees, and held five webinars with over 800 participants.

USAC Administrative Expenses (Unaudited)

YEAR	EXPENSE RATE	USAC ADMINISTRATIVE EXPENSES	FCC OIG USF AUDIT PROGRAM COSTS[2]	TOTAL ADMINISTRATIVE EXPENSES
2008	2.42%	$ 91,677,000	$ 80,555,000	$ 172,232,000
2009	2.57%	$ 99,591,000	$ 87,074,000	$ 186,665,000
2010	1.33%	$ 102,089,000	$ 3,337,000	$ 105,426,000
2011	1.32%	$ 106,542,000	$ 205,000	$ 106,747,000
2012[1]	1.27%	$ 110,774,000	$ 0	$ 110,774,000

Notes — 1. USAC administrative expenses based on unaudited financial statement in this annual report for 2012.
2. FCC OIG USF audit expenses as reported in Board of Directors meetings.

USAC RESPONSIVENESS

SAVING TIME AND TREES

CHALLENGE
Carriers sometimes participate in multiple programs. Ending participation in just one program resulted in a lot of paperwork and the relinquishing of their existing identification (ID) number.

SOLUTION
We suggested that the FCC update the form in a way that made preservation of their ID number possible.

IMPACT
The FCC incorporated our suggestion into the new FCC Form 498. This change allows service providers to preserve their ID number without the hassle of extra paperwork.

High Cost Program

The High Cost Program ensures that voice and broadband services, both fixed and mobile, are available to Americans throughout the nation at comparable rates.

The High Cost Program team spent a large part of 2012 implementing reforms and changes required by the USF/ICC Transformation Order, which overhauled universal service policies for rural and hard-to-serve areas. USAC successfully developed and deployed system functionality to address program changes, including freezing or capping various types of support and implementing new High Cost support mechanisms.

This monumental transformation of the High Cost Program required USAC to secure the necessary resources to perform required system modifications, create new online forms to collect better data, educate internal and external stakeholders, and coordinate with USAC's finance team to develop new disbursement and reporting processes.

The FCC revamped carrier certification and reporting requirements, and USAC met all deadlines for implementing these changes. High Cost Program staff developed a rate floor certification form to collect data on carriers' end-user rates to determine their support amounts if they did not meet a specified local rate floor.

USAC procured a new cost model for price cap carrier support, working closely with FCC staff on the

USAC INNOVATION

READY FOR ANYTHING

CHALLENGE
With changes occurring in the program, our teams are faced with presenting new and complex information that is expected to evolve over time. As new information arrives, it needs to be shared with and understood by the public.

SOLUTION
We redeveloped the High Cost section of the website so that we can adapt to whatever comes our way and communicate changes effectively.

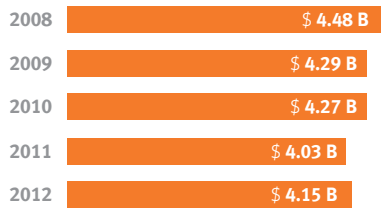
IMPACT
We have room to grow. As the different parts of the High Cost Program develop, each section can be tailored to support participants' needs.

agreement to purchase the rights to the application for calculating this support. USAC deployed several versions of the proposed cost model in early 2013, giving carriers the ability to calculate costs using a variety of different inputs and assumptions. This data will allow the FCC to determine the final cost model and inputs in 2013 so that USAC will be able to calculate and disburse this support.

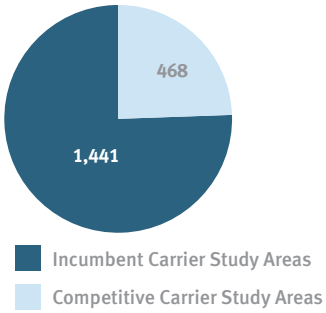
Following the FCC's Mobility Fund Phase I auction held this past September, USAC staff developed the new operations and systems needed to make support payments to authorized winning bidders starting in early 2013. The Mobility Fund provides dedicated funding for mobile voice and broadband services, with Phase I funds supporting swift deployment of networks for mobile broadband services in areas unserved by current generation mobile broadband, or 3G.

High Cost Program staff made several presentations at industry events in 2012 to highlight the changes resulting from the FCC's overhaul of the program. In addition, staff continued providing new information on USAC's website and by emails and newsletters to stakeholders about program changes and processes.

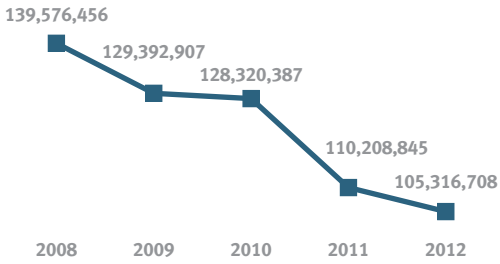
APPROVED DISBURSEMENTS



STUDY AREAS RECEIVING SUPPORT IN 2012



NUMBER OF LINES SUPPORTED



USAC RESPONSIVENESS

YOU SPOKE, WE LISTENED

CHALLENGE
Users were confused and had a lot of questions about the details of their payments.

SOLUTION
We created the Detailed Payment Data Search tool that breaks down payment information by study area, state, or support mechanism so users can find the exact information they need.

IMPACT
The name of the tool says it all. Users have detailed information in an easy-to-read format with the important data they're looking for at their fingertips.

Lifeline Program

The Lifeline Program provides discounts for low-income consumers to obtain and maintain telecommunications services at affordable rates.

The Lifeline Program focused on implementing the FCC's Lifeline Reform Order released in February that comprehensively reformed the universal service programs for carriers serving low-income consumers.

Among other things, the FCC directed USAC to continue in-depth data validations (IDVs) to check for duplicate Lifeline subscribers and create a National Lifeline Accountability Database (NLAD) for eliminating and preventing duplicative support. IDVs and the national database represent measures by the FCC and USAC to reduce the size of the program and mitigate potential waste, fraud, and abuse of program funds.

USAC started IDVs in certain states in 2011 and in 2012 analyzed over 12 million subscriber records. These reviews required carriers to de-enroll nearly 1.1 million subscribers from the program and resulted in nearly $128 million in annual net savings.

USAC worked with FCC staff to issue a procurement to select a vendor to build the NLAD. The database will serve to ensure that consumers receive only appropriate Lifeline Program support by allowing authorized users, including carriers and states, to determine if a prospective consumer already is enrolled in the program.

USAC INNOVATION

USE THE EASY BUTTON

CHALLENGE
With so many criteria for eligibility, people who could be eligible for funding were getting lost while trying to navigate through a lot of information.

SOLUTION
We created the Lifeline Pre-Screening Tool that helps individuals determine whether they are eligible for the program.

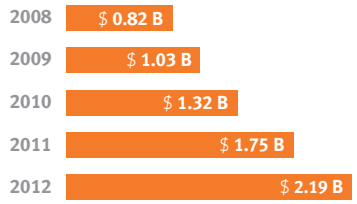
IMPACT
The tool breaks down Lifeline Program eligibility criteria into digestible parts and walks the individual through the process, step by step.

In addition, USAC implemented numerous FCC changes affecting consumer eligibility and enrollment. These include limiting Lifeline Program support to one account per household, extending the existing federal default eligibility criteria nationwide, requiring that carriers verify a consumer's eligibility before enrollment, and obtaining an annual certification confirming that the consumer remains eligible.

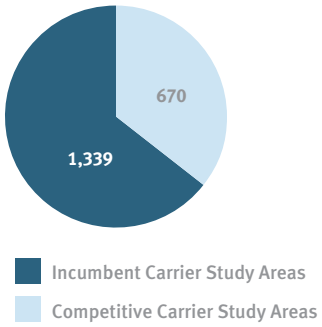
For example, USAC developed a one-per-household worksheet for the Lifeline Program to help carriers and consumers determine whether more than one household resides at a single address. The worksheet must be completed when a new applicant applies for Lifeline Program support at an address where there is already a Lifeline subscriber.

The Lifeline Reform Order also established a low income broadband pilot program set to start in 2013 that will use about $14 million of the nearly $200 million in expected savings brought on by the reforms. The pilot program is designed to explore ways to increase broadband adoption among low-income consumers and to collect valuable, real-world data to help the FCC determine how to increase broadband adoption.

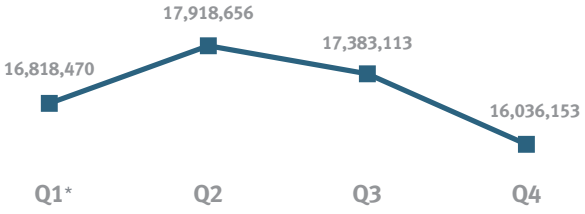
APPROVED DISBURSEMENTS



STUDY AREAS RECEIVING SUPPORT IN 2012



SUBSCRIBERS SUPPORTED



** Quarterly numbers are averages*

USAC RESPONSIVENESS

EXPANDING OPTIONS

CHALLENGE
Different companies have different needs when it comes to filing forms. For many, the available options did not suit their filing needs.

SOLUTION
We created editable formats for our forms that allow users to file by fax, mail, or electronically.

IMPACT
Companies can choose the most effective way to file their forms and still remain compliant with program rules.

Rural Health Care Program

The Rural Health Care Program ensures that rural health care providers (HCPs) can obtain telecommunications and Internet services at rates comparable to urban providers and, through the Rural Health Care Pilot Program, it facilitates the creation of broadband networks dedicated to healthcare.

The Rural Health Care Program deployed a new online application management system in early 2012. Built entirely by USAC staff, this new system allows program participants to file forms online, upload and store supporting documentation, and receive automated alerts related to their forms. Automation of processing tasks allows for improved accuracy and better internal controls to mitigate potential waste, fraud, and abuse of universal service support.

The new system, called My Portal, was rolled out in phases during 2012 to support program cycles for receiving, reviewing, and approving forms. Applicants could submit FCC Form 465 for Funding Year (FY) 2012 in April when the funding window opened, and USAC implemented functionality for the FCC Forms 466 and 466-A in July, to coincide with the start of FY2012. In 2012, USAC received 5,042 requests for services and 3,709 funding requests in the Rural Health Care Program for FY2012.

In the Pilot Program, USAC implemented a July FCC order that allowed Pilot projects to obtain additional support while the FCC considered long-term changes to the Rural Health Care Program. USAC helped the FCC evaluate the Pilot Program by submitting observations based on its experience and data collected for the Pilot Program.

USAC INNOVATION

THERE'S A PLACE FOR EVERYTHING

CHALLENGE
Managing forms was a challenge for applicants because of high staff turnover. New employees often had no knowledge of their company's history with the program. If the paperwork isn't all there, they may have to give back money.

SOLUTION
We built My Portal — a secure, one-stop shop where applicants can seamlessly manage paperwork year after year.

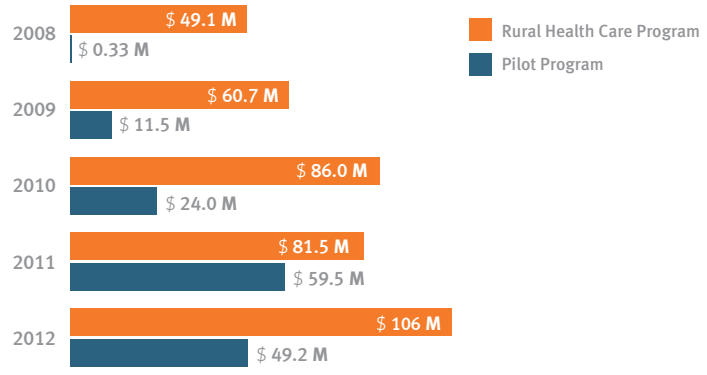
IMPACT
Applicants keep their records in one location so documents never get lost. They stay organized and can upload missing documentation or respond to program requests for clarification quickly and easily.

For the Pilot Program through December 31, 2012, USAC posted 170 FCC Form 465 packages for 55 projects; issued 434 funding commitments totaling $363 million to 50 projects; and disbursed $144 million in support to 45 projects. Ten site visits were conducted in 2012 to learn how participants use support and to assess program compliance.

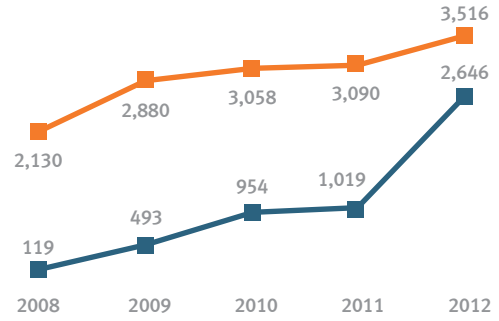
In 2012, Rural Health Care Program staff exhibited or presented at the Georgia Partnership for Telehealth conference, the Oklahoma Telemedicine conference, and the National Rural Health Association Critical Access Hospitals conference, among others. USAC continued developing webinars, new web-based tools, and video tutorials to train HCPs about program rules and the application process.

The FCC established the new Healthcare Connect Fund as part of a reform effort in December. This fund will help expand HCP access to the high-bandwidth connections needed for modern telemedicine and foster the development of HCP broadband networks. USAC is working with FCC staff to implement the new program.

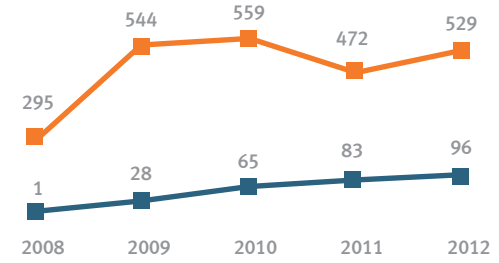
APPROVED DISBURSEMENTS



HEALTH CARE PROVIDERS RECEIVING SUPPORT



SERVICE PROVIDERS PARTICIPATING



USAC RESPONSIVENESS

HELPING KEEP AMERICANS HEALTHY

CHALLENGE

Rural health care providers face the challenge of providing critical health services to their patients. Many HCPs are unaware that funds are available to support the cost of their communications needs through universal service.

SOLUTION

We designed an outreach program to grow awareness about available funds. We met with applicants where they live to give them the information they need.

IMPACT

More applicants know about universal service and receive funding. Last year, the Rural Health Care Program experienced its highest growth since 1998. Applications increased by 27 percent, and disbursements exceeded $100 million.

Schools and Libraries Program

The Schools and Libraries Program (often called E-rate) helps to ensure that schools and libraries can obtain telecommunications, telecommunications services, Internet access, internal connections, and basic maintenance of internal connections at affordable rates.

The Schools and Libraries Program team focused on reducing the average time to reach all funding decisions and delivering high quality training and outreach to constituents. In addition, USAC undertook and completed the insourcing of program information technology operations, which will lead to greater efficiency at lower costs.

Operational improvements started in late 2011 paid off with the biggest first wave of funding in the program's history in 2012. In this wave, USAC released a record 23,800 commitment letters for nearly $646 million in 2012, compared to 18,500 letters for $398 million in 2011. This 29 percent increase in commitments resulted in part from greater operational efficiencies in program review processes and outreach to program participants encouraging them to file applications more accurately online. Overall, USAC received almost 47,000 applications requesting over $5 billion in Funding Year (FY) 2012, a six percent increase over FY2011.

In July, USAC worked with the FCC to identify $1.05 billion in unused funds from previous years, which the FCC approved for USAC to carry forward for use in FY2012. This allowed the Schools and Libraries Program to fund more of the neediest applicants.

USAC INNOVATION

TALKING THE TALK

CHALLENGE
Information and instructions on our website confused program participants who came to the Schools and Libraries pages looking for answers.

SOLUTION
We rewrote and prioritized the program's content after extensive research and usability testing.

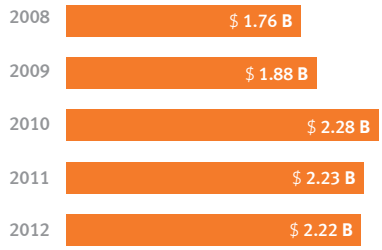
IMPACT
We were able to capture the user's perspective so that both newcomers and veterans could receive guidance tailored to their needs.

Schools and Libraries Program operations ably weathered the effects of Hurricane Sandy this past November. In spite of widespread power outages affecting contractor personnel, USAC continued to process applications and pay invoices. USAC also extended select deadlines for all participants, precluding any need for individuals to file extension requests.

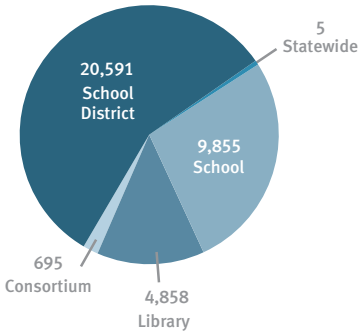
Also in 2012, the Schools and Libraries Program team continued its successful training programs for both service providers and applicants. The service provider trainings held in Atlanta and Los Angeles attracted over 350 participants. For applicants, USAC held training sessions in eight states and covered beginner basics, program compliance, and program updates. These sessions attracted over 1,500 attendees, with most locations reaching overflow attendance.

USAC conducted almost 800 Helping Applicants to Succeed (HATS) visits in 2012, which included in-person visits, telephone and video conferences, and customized outreach projects. The HATS team informed applicants in 50 states and the District of Columbia about upcoming deadlines, how to file forms, and what their next steps should be.

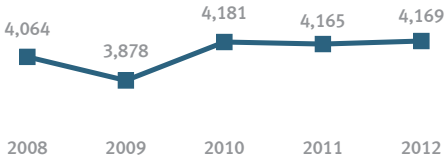
APPROVED DISBURSEMENTS



APPLICATIONS FUNDED, FUNDING YEAR 2012



SERVICE PROVIDERS PARTICIPATING



USAC RESPONSIVENESS

STARTING FROM SCRATCH

CHALLENGE
Users struggled with the Search Posted 470 Information tool because of its limited capabilities for searching and reporting results.

SOLUTION
Instead of making changes to the existing tool, we created a brand new one with expanded search options and multiple reporting formats.

IMPACT
The new Download 470 Information tool gives users access to the information they need, the way they want it.

Management's Discussion and Analysis

MISSION AND STRUCTURE

The Universal Service Administrative Company (USAC) is a not-for-profit corporation that was formed in 1997 to administer the federal universal service support programs and the universal service fund (USF) in accordance with Federal Communications Commission (FCC) rules. USAC's mission is to collect and distribute money for the programs and the USF and administer the four universal service support mechanisms – High Cost, Lifeline, Rural Health Care, and Schools and Libraries. USAC works to protect the integrity of the fund, promote compliance among program participants, and provide information about the programs and 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 programs and 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 CFR 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. Consistent with FCC rules, USAC does not make policy for or interpret unclear provisions of statutes or the FCC's rules.

PERFORMANCE MEASURES

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

FUND ADMINISTRATION	1ST QTR	2ND QTR	3RD QTR	4TH QTR
USF CONTRIBUTOR STATISTICS				
Number of USF contributors	3,086	3,084	3,076	3,111
Total contributions to the USF (in thousands)	$ 2,519,851	$ 2,415,478	$ 2,244,575	$ 2,390,870
Total delinquencies or past due payments (in thousands)	$ 260,545	$ 287,932	$ 221,015	$ 264,766
AVERAGE TIME TO PROCESS PAYMENTS (IN DAYS)				
High Cost	3	6	4	3
Lifeline	29	29	29	29
Rural Health Care (Funding Year 2011)	17	14	12	13
Schools and Libraries (Funding Year 2011)	5	3	3	7
USAC COMPLAINT STATISTICS				
Complaints about USAC	21	9	10	29
Average number of business days to resolve complaints	1.0	1.2	1.3	1.0

HIGH COST PROGRAM	1ST QTR	2ND QTR	3RD QTR	4TH QTR
Total amount disbursed (in thousands)	$ 1,016,770	$ 981,892	$ 1,095,535	$ 1,052,920

LIFELINE PROGRAM	1ST QTR	2ND QTR	3RD QTR	4TH QTR
Total amount disbursed (in thousands)	$ 538,087	$ 564,463	$ 557,509	$ 529,438
Number of program beneficiaries	2,049	2,042	2,059	2,032

RURAL HEALTH CARE PROGRAM	1ST QTR	2ND QTR	3RD QTR	4TH QTR
APPLICATION TYPES (all numbers cumulative for funding year)				
FUNDING YEAR 2012				
Telecom	n/a	n/a	1,524	2,597
Internet	n/a	n/a	638	1,112
FUNDING YEAR 2011				
Telecom	4,350	7,825	8,255	8,270
Internet	1,420	3,015	3,224	3,246
APPLICATION OUTCOMES (all numbers cumulative for funding year)				
FUNDING YEAR 2012				
Submitted	n/a	n/a	2,162	3,709
Granted	n/a	n/a	n/a	58
Rejected	n/a	n/a	n/a	24
FUNDING YEAR 2011				
Submitted	5,770	10,840	11,479	11,516
Granted	2,122	4,641	7,268	9,796
Rejected	155	335	585	941
INVOICES FUNDING YEAR 2011 (all numbers cumulative for funding year)				
Invoices received	211	717	1,442	2,247
Invoices paid	132	596	1,335	2,093
Invoices rejected	7	26	28	36
APPEALS				
Current appeals (new appeals received in each quarter)	10	8	10	15
Average calendar days to resolve appeals	123	152	138	127

SCHOOLS AND LIBRARIES PROGRAM	1ST QTR	2ND QTR	3RD QTR	4TH QTR
APPLICATION OUTCOMES (all numbers cumulative for funding year)				
FUNDING YEAR 2012				
Submitted	46,714	46,947	46,984	46,994
Granted	n/a	n/a	31,407	36,004
Rejected	n/a	n/a	3,500	4,046
FUNDING YEAR 2011				
Submitted	44,640	44,640	44,641	44,641
Granted	36,281	37,368	37,880	38,337
Rejected	1,028	2,209	3,274	3,495
INVOICES FUNDING YEAR 2011 (all numbers cumulative for funding year)				
Invoices received	184,300	335,524	451,405	512,951
Invoices paid	167,747	309,697	409,764	466,413
Invoices rejected	8,919	14,513	22,856	29,997
APPEALS				
Current appeals (new appeals received in each quarter)	366	355	436	654
Average calendar days to resolve appeals	96	67	90	51

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

USAC has a formal internal controls 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 2012, USAC's internal controls group continued to enhance USAC's overall internal controls framework with their testing program and successfully moved all of USAC's policies and procedures into a new framework. No material weaknesses were identified during the 2012 internal controls assessments. In addition to annual internal controls assessments, USAC contracts with an independent audit firm to perform an annual audit of its financial statements as well as agreed upon procedures in compliance with the requirements in 47 CFR Part 54. The FCC's auditors also audit the USF as part of the annual FCC financial audit.

USAC's current financial management system is a widely used and commercially accepted accounting system. However, as the administrator of the USF, it is the responsibility of USAC's management to be in compliance with laws and regulations applicable to the USF. The 2012 audit of the FCC's financial statements identified a non-compliance with the Federal Managers Financial Integrity Act of 1982. The non-compliance noted was that the financial systems of the FCC's reporting components (e.g., the USF) do not achieve the federal financial system integration standards as determined by OMB. Although USAC's financial systems are not currently compliant with OMB standards, we have compensating controls in place to ensure all financial data is accurate and meets the requirements of the FCC. We are actively working with the FCC to finalize a request for proposals to obtain and implement a fully compliant financial management system.

FINANCIAL INFORMATION

The accompanying USAC unaudited financial statements and tables are the responsibility of USAC management and reflect all adjustments and reclassifications that are necessary for fair presentation of the period presented. The results for the year ended December 31, 2012, are not considered final until the 2012 financial statement audit is completed by our independent auditors. These unaudited financial statements and tables should be used in conjunction with the audited financial statements and the notes thereto for the years ended December 31, 2011, and 2010, included herein.

The table below presents selected data about USAC's staffing and operations for 2012 and 2011.

ITEM	2012	2011
Number of employees	328	298
Personnel costs	$ 35,820,000	$ 30,348,000
Overall general and administrative expenses	$ 18,975,000	$ 14,901,000
Contract expenses	$ 51,384,000	$ 55,349,000

2012 USAC Contractors Receiving Payments Greater than $1 Million

CONTRACTOR/VENDOR	TYPE OF GOODS/SERVICE	PROCUREMENT METHOD
Solix, Inc.	RHC-SL Operational Support Services	Competitive Bid
Science Applications International Corp	RHC-SL Information Technology Services	Competitive Bid
Brookfield Properties	Office Lease 2012	Competitive Bid
Cigna Healthcare	Employee Benefits	Competitive Bid
The Guardian Life Insurance Company of America	Employee Benefits	Competitive Bid
Cotton Company LLP	Payment Quality Assurance Support Services	Competitive Bid
DP George & Company, LLC	Financial Statement Audit and Agreed Upon Procedures Review	Competitive Bid
Clearpath Solutions Group LLC	Computer Hardware and Software (multiple procurements)	Competitive Bid

Dollar Range: ■ **+ $25 million** ■ **$5 million – $25 million** ■ **$1 million – $5 million**

Statement of Financial Position of USAC

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

	2012
ASSETS	
Current Assets	
Cash	$ 3,899
Receivable from the Federal USF	9,125
Prepaid expenses and other current assets	2,864
Assets held for the Federal USF	4,603,656
Total Current Assets	**4,619,544**
Fixed Assets, net, held for Federal USF	5,486
Other Assets	585
Assets held for the Federal USF	2,769,040
TOTAL	**$ 7,394,655**
LIABILITIES AND UNRESTRICTED NET ASSETS	
Current Liabilities	
Accounts payable and accrued liabilities	$ 5,140
Advance from the Federal USF	13,024
Deferred revenue	629
Liabilities related to assets held for the Federal USF	4,603,656
Total Current Liabilities	**4,622,449**
Deferred rent	3,166
Liabilities related to assets held for the Federal USF	2,769,040
Commitments and contingencies	0
TOTAL	**$ 7,394,655**
NET ASSETS	**$ 0**

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

Statement of Operations and Change in Unrestricted Net Assets of USAC

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

	2012
REVENUE	$ 110,774
Operating Expenses	
Contractual expenses	51,384
Personnel and related expense	35,820
General and administrative	18,975
Depreciation, amortization, and gain/loss on retirements	4,595
Total Operating Expenses	**$ 110,774**
Change in Net Assets	0
Net Assets — Beginning of year	0
NET ASSETS — END OF YEAR	**$ 0**

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

Statement of Cash Flows of USAC

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

	2012
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from the Federal USF and other parties	$ 108,567
Cash paid for operating expenses and employees	(105,239)
Net cash provided by operating activities	**3,328**
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures	(3,053)
Increase in Cash	**275**
Cash, Beginning of year	3,624
Cash, End of year	**$ 3,899**
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Change in net assets	$ 0
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization	4,587
(Gain) Loss on retirement of fixed assets	8
Changes in operating assets and liabilities:	
(Increase) in prepaid expense and other assets	(2,150)
(Increase) in assets held for the Federal USF	(722,216)
Decrease in receivable from the Federal USF	104
Increase in accounts payable and accrued liabilities	1,447
(Decrease) in deferred revenue	(2,311)
Increase in deferred rent	1,643
Increase in liabilities related to assets held for the Federal USF	722,216
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**$ 3,328**
Supplemental disclosure of non-cash information	
Non-monetary like kind exchange	$ 0
Capital expenditures included in accounts payable	$ 135

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

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

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

	2012					
	SCHOOLS AND LIBRARIES	HIGH COST	HIGH COST – BROADBAND	LIFELINE	RURAL HEALTH CARE	TOTAL USF
ASSETS						
Cash and cash equivalents	$ (976,366)	$ 209,006	$ 877,225	$ 187,296	$ 351,739	$ 648,900
Investments	5,884,144	0	0	0	0	5,884,144
Receivables	522,675	574,265	0	283,883	9,758	1,390,581
Allowance for doubtful accounts	(289,492)	(204,786)	0	(57,091)	(4,589)	(555,958)
Interest receivable	4,795	(55)	0	271	19	5,030
Assets held for the Federal USF	**5,145,756**	**578,430**	**877,225**	**414,359**	**356,927**	**7,372,697**
Receivable from USAC	(83,192)	79,432	0	25,831	(9,048)	13,023
Receivable from Programs	0	0	0	0	0	0
TOTAL	**$ 5,062,564**	**$ 657,862**	**$ 877,225**	**$ 440,190**	**$ 347,879**	**$ 7,385,720**
LIABILITIES						
Payable to service providers	(14,993)	(2,897)	0	(2,881)	(23)	(20,794)
Accrued liabilities	(11,279)	(370,217)	0	(198,068)	(646)	(580,210)
TOTAL	**$ (26,272)**	**$ (373,114)**	**$ 0**	**$ (200,949)**	**$ (669)**	**$ (601,004)**

Note — This schedule represents the assets and liabilities applicable to the Federal USF at December 31, 2012, 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, 2012 | (Unaudited – *in thousands*)

	2012				
	SCHOOLS AND LIBRARIES	HIGH COST	LIFELINE	RURAL HEALTH CARE	TOTAL USF
ADDITIONS					
Amounts billed to contributors	$ 2,379,504	$ 4,625,065	$ 2,452,194	$ 127,374	$ 9,584,137
Non-exchange revenues	(11,297)	(22,727)	(10,632)	(635)	(45,291)
Interest income	13,263	7,846	522	4,953	26,584
Total additions	**2,381,470**	**4,610,184**	**2,442,084**	**131,692**	**9,565,430**
DEDUCTIONS					
Amount paid and due to service providers	2,275,335	4,132,671	2,204,537	154,956	8,767,499
Bad debt expenses	(49,989)	32,767	(886)	513	(17,595)
Operating expenses	69,974	16,709	7,457	13,870	108,010
Unrealized/realized gain or loss	(4,622)	0	0	0	(4,622)
Total deductions	2,290,698	4,182,147	2,211,108	169,339	8,853,292
CHANGES IN NET ASSETS	**$ 90,772**	**$ 428,037**	**$ 230,976**	**$ (37,647)**	**$ 712,138**

Note — This schedule represents the changes in net assets applicable to the Federal USF at December 31, 2012, for each of the support programs.

Combining Supplemental Schedule of Cash Flows Applicable to the Federal USF

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

	2012				
	SCHOOLS AND LIBRARIES	HIGH COST	LIFELINE	RURAL HEALTH CARE	TOTAL USF
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from contributors	$ 2,533,493	$ 4,620,496	$ 2,398,408	$ 124,292	$ 9,676,689
Interest paid	18,395	8,546	586	5,438	32,965
Cash paid to service providers	(2,280,936)	(4,121,873)	(2,184,922)	(155,785)	(8,743,516)
Cash paid for administrative costs	(69,974)	(16,709)	(7,457)	(13,870)	(108,010)
Interfund transfers	0	47,000	(47,000)	0	0
Net cash provided by (used in) operating activities	**200,978**	**537,460**	**159,615**	**(39,925)**	**858,128**
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investments	3,741,480	0	0	0	3,741,480
Purchase of investments	(4,441,656)	0	0	0	(4,441,656)
Net cash used in investing activities	(700,176)	0	0	0	(700,176)
INCREASE (DECREASE) IN CASH EQUIVALENTS	**(499,198)**	**537,460**	**159,615**	**(39,925)**	**157,952**
CASH AND CASH EQUIVALENTS					
Beginning of year	(477,168)	548,771	27,681	391,664	490,948
END OF YEAR	**$ (976,366)**	**$ 1,086,231**	**$ 187,296**	**$ 351,739**	**$ 648,900**
RECONCILIATION OF CHANGES IN NET ASSETS PROVIDED BY (USED IN) CASH FROM OPERATING ACTIVITIES					
Change in net assets	$ 90,772	$ 428,037	$ 230,976	$ (37,647)	$ 712,138
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:					
Bad debt expense	(38,693)	55,494	9,746	1,147	27,694
Amortized discount	3,939	0	0	0	3,939
Unrealized/realized gain or loss	(4,622)	0	0	0	(4,622)
Changes in operating assets and liabilities					
Decrease (increase) in interest receivable	1,193	700	64	485	2,442
Decrease (increase) in accounts receivable	153,990	(4,569)	(53,786)	(3,081)	92,554
Decrease (increase) in receivable from USAC	0	0	0	0	0
Decrease (increase) in other assets	0	0	0	0	0
Increase (decrease) in liabilities	(5,601)	10,798	19,615	(829)	23,983
Interfund transfers	0	47,000	(47,000)	0	0
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**$ 200,978**	**$ 537,460**	**$ 159,615**	**$ (39,925)**	**$ 858,128**

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

Report of Independent Auditors

To the Board of Directors of
Universal Service Administrative Company:

We have audited the accompanying statement of financial position of Universal Service Administrative Company (the "Company") as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of December 31, 2010, were audited by other auditors whose report dated June 28, 2011, expressed an unqualified opinion on those statements.

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 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Universal Service Administrative Company as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August, 29, 2012, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. 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 subject to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on them.

DP George & Company, LLC
August 29, 2012

DP George & Company

2121 Eisenhower Avenue
Suite 606
Alexandria, VA 22314
Telephone 703-229-4437

Statements of Financial Position of USAC

As of December 31, 2011 and 2010 | (in thousands)

	2011	2010
ASSETS		
Current Assets		
Cash	$ 3,624	$ 846
Receivable from the Federal USF	9,229	12,178
Prepaid expenses and other current assets	945	788
Assets held for the Federal USF (*Note 3*)	3,717,750	4,532,867
Total Current Assets	**3,731,548**	**4,546,679**
Fixed Assets, net, held for Federal USF (*Note 4*)	6,970	11,099
Other Assets	354	200
Assets held for the Federal USF (*Note 3*)	2,932,730	1,927,884
TOTAL	**$ 6,671,602**	**$ 6,485,862**
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	$ 5,157	$ 5,635
Advance from the Federal USF	13,024	13,024
Deferred revenue	2,941	6,452
Liabilities related to assets held for the Federal USF	3,717,750	4,532,867
Total Current Liabilities	**3,738,872**	**4,557,978**
Liabilities related to assets held for the Federal USF	2,932,730	1,927,884
Commitments and contingencies (*Note 7*)	0	0
TOTAL	**$ 6,671,602**	**$ 6,485,862**
NET ASSETS	**$ 0**	**$ 0**

Statements of Operations and Change in Unrestricted Net Assets of USAC

For the Years Ended December 31, 2011 and 2010 | (in thousands)

	2011	2010
REVENUE	$ 106,747	$ 105,426
Operating Expenses		
Contractual expenses	55,349	52,843
Personnel and related expense	30,348	27,201
General and administrative	14,901	18,373
Depreciation, amortization and gain/loss on retirements	6,149	7,009
Total Operating Expenses	**106,747**	**105,426**
Change in Net Assets	0	0
Net Assets — Beginning of Year	0	0
NET ASSETS — END OF YEAR	**$ 0**	**$ 0**

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

Statements of Cash Flows of USAC

For the Years Ended December 31, 2011 and 2010 | (in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from the Federal USF and other parties	$ 106,185	$ 96,492
Cash paid for operating expenses and employees	(101,254)	(107,083)
Net cash provided by (used in) operating activities	**4,931**	**(10,591)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(2,153)	(1,454)
Increase (Decrease) in Cash	**2,778**	**(12,045)**
Cash — Beginning of Year	846	12,891
CASH — END OF YEAR	**$ 3,624**	**$ 846**
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Change in net assets	$ 0	$ 0
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,452	6,966
(Gain) Loss on retirement of fixed assets	(303)	43
Changes in operating assets and liabilities:		
Increase in prepaid expense and other assets	(311)	(139)
Increase in assets held for the Federal USF	(189,729)	(262,866)
Decrease (Increase) in receivable from the Federal USF	2,949	(12,178)
Decrease in accounts payable and accrued liabilities	(345)	(8,528)
Decrease in advance from the Federal USF	0	(3,207)
(Decrease) Increase in deferred revenue	(3,511)	6,452
Increase in liabilities related to assets held for the Federal USF	189,729	262,866
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**$ 4,931**	**$ (10,591)**
Supplemental disclosure of non-cash information:		
Non-monetary like kind exchange	$ 390	$ 0
Capital expenditures included in accounts payable	$ 78	$ 210

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

Notes to Financial Statements

As of And For the Years Ended December 31, 2011 and 2010

1 ORGANIZATION AND BASIS OF PRESENTATION

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

The FCC, in its Report and Order in CC Docket Nos. 96-45 and 97-21 ("Universal Service Order") released May 8, 1997 and November 20, 1998, respectively, determined that USAC should serve as the permanent administrator of the High Cost, 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. It also collects information regarding contributing entities' and end-user telecommunications revenues, and submits projections of demand, administrative expenses for the Programs, and quarterly universal service contribution data to the FCC.

The functions of USAC as the administrator of the USF also include, but are not limited to, development of applications and associated instructions as needed for the Programs, administering the application process consistent with applicable FCC rules and related operational infrastructure for such processes, creating and maintaining a Web site, performing outreach and public education functions, authorizing and performing audits of telecommunications carriers reporting information to USAC as required under 47 C.F.R. Part 54, Subpart H, telecommunications carriers receiving High Cost and/or Low Income Program benefits, schools, libraries, and rural health care providers and beneficiaries, and development and implementation of other functions unique to the Programs.

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

NECA, a related party to USAC, performs data collection functions for the High Cost Program pursuant to FCC rules and bills USAC for the associated costs. NECA is compensated by USAC in accordance with NECA's Cost Accounting and Procedures Manual. For the years ended December 31, 2011 and 2010, the expense recognized for services rendered by NECA was $427,501 and $336,797, respectively. These expenses are included in contractual expenses in the accompanying Statements of Operations and Change in Unrestricted Net Assets. At December 31, 2011 and 2010, amounts due to NECA were $46,748 and $45,770, respectively.

The accompanying financial statements have been prepared on the accrual basis of accounting, in conformity with the accounting principles generally accepted in the United States of America. Certain prior period amounts in the Statements of Operations and Change in Unrestricted Net Assets have been reclassified to conform to the current year presentation.

2 SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fixed Assets — Fixed assets consist of office furniture, office equipment, computer hardware, computer software and leasehold improvements. These assets are carried at cost, net of accumulated depreciation and amortization. Projects in progress consist primarily of development costs of internal use software. Depreciation of furniture and equipment is calculated on a straight-line basis over the seven-year estimated useful lives of those assets. Depreciation and amortization of hardware and software is calculated on a straight-line basis over the three- to five-year estimated lives of those assets. Amortization of leasehold improvements is calculated on a straight-line basis over the shorter of the remaining period of the respective leases or

estimated useful lives of the improvements. Maintenance and repairs are expensed to operations as incurred.

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.

Receivable from the Federal USF — USAC bills the USF on a monthly basis based upon net cash disbursements.

Advance from the Federal USF — Amounts 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.

Deferred Revenue — Cash received from the USF for amounts expended in excess of expenses recognized is shown as deferred revenue.

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

Concentration of Credit Risk — Financial instruments that potentially subject USAC, as the administrator of the USF, to concentration of credit risk consist principally of cash, cash equivalents, short-term and long-term investments, and receivables from contributors. USAC, as the administrator of the USF, places its cash, cash equivalents, and short-term and long-term investments with high quality credit institutions. USAC maintains its cash and cash equivalents with financial institutions which are federally insured under the Federal Depository Insurance Corporation Act ("FDIC"). The total deposits at these institutions are generally in excess of federally insured amounts. Deposits in excess of federally insured amounts are collateralized up to $620 million by securities which consist primarily of United States Treasury debt securities. USAC has not experienced any losses on its cash and cash equivalents. In the normal course, USAC also has invested cash held for the benefit of the USF in U.S. Treasury securities, which are classified under Assets held for the Federal USF.

3

ACTIVITIES RELATED TO THE FEDERAL USF

As discussed in Note 1, the cash and other financial assets of the USF, which USAC administers and acts as an intermediary for, are reported at fair value in the Statements of Financial Position as assets held for the Federal USF, with an equal amount recorded as liabilities related to assets held for the Federal USF.

The summary of assets applicable to the USF included below provides additional detail with respect to these amounts.

	DECEMBER 31	
In thousands	**2011**	**2010**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 490,948	$ 151,650
Investments	2,269,145	3,486,431
Accounts receivable	1,478,527	1,226,519
Allowance for doubtful accounts	(528,263)	(335,477)
Interest receivable	7,393	3,744
Total Current Assets held for the Federal USF	**$ 3,717,750**	**$ 4,532,867**
Fixed Assets	6,970	11,099
Investments	2,932,730	1,927,884
Total Assets Held for Federal USF	**$ 6,657,450**	**$ 6,471,850**

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

Short-Term Investments — USAC, as the administrator of the USF, considers all securities purchased with an original maturity of greater than three months and a current maturity of less than or equal to one year to be short-term investments. Short-term investments consist solely of United States Treasury securities with readily determinable fair values. USAC, as the administrator of the USF, accounts for its investments in accordance with investment accounting standards for not-for-profit organizations. At December 31, 2011 and 2010, there were $2.27 billion and $3.49 billion in short-term investments, respectively.

Long-Term Investments — USAC, as the administrator of the USF, considers all securities purchased with a current maturity of greater than one year to be long-term investments. These investments are accounted for in accordance with fair value measurement accounting standards. Long-term investments consist primarily of United States Treasury debt securities with readily determinable fair values, none of which have maturities greater than three years. At December 31, 2011 and 2010, there were $2.93 billion and $1.93 billion in long- term investments, respectively.

Accounts Receivable and Allowance for Doubtful Accounts — USAC, as the administrator of the USF, recognizes accounts receivable arising from amounts billed to contributors and the recovery of funds from service providers and beneficiaries, which remain unpaid. Accounts receivable are recorded at invoiced amounts and generally do not bear interest. Based on the Debt Collection Improvement Act ("DCIA"), all receivables over 90-days delinquent are transferred to the 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 held by USAC for the benefit of the USF and, if collected, are transferred by the FCC to USAC for the benefit of the USF. In May 2011, the FCC instructed USAC to suspend transfers of over 90-days receivables, pending resolution of issues associated with the implementation of the FCC's new financial system. In March 2012, the company was directed by the FCC to begin transferring DCIA receivables directly to the United States Treasury. USAC began transferring receivables to the United States Treasury in May 2012.

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 United States Treasury for collection, and other items. Management periodically reviews such estimates and management's assessment of recoverability may change based on actual results.

Accounts receivable write-offs are periodically submitted by USAC to the FCC. 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").

Accounting Policy Change — In 2010, USAC changed its methodology of billing for expenditures made on behalf of the USF. USAC bills the USF on a monthly basis based upon net cash disbursements. The previous billing methodology was based upon expenses recognized for the period. As a result of this billing change, deferred revenue of $6,452 was recorded.

4

FIXED ASSETS

Fixed Assets as of December 31, 2011 and 2010 are as follows:

	DECEMBER 31	
In thousands	**2011**	**2010**
FIXED ASSETS		
Office furniture	$ 2,017	$ 1,831
Office equipment	229	312
Computer hardware	3,267	2,985
Computer software	23,792	23,075
Leasehold improvements	1,900	2,111
Projects in progress	712	0
Total Fixed Assets	**$ 31,917**	**$ 30,314**
Less accumulated depreciation and amortization	(24,947)	(19,215)
Net Fixed Assets	**$ 6,970**	**$ 11,099**

Depreciation and amortization expense was $6,452 and $6,966 for the years ended December 31, 2011 and 2010, respectively.

5

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

based on assumptions that market participants would use in pricing an asset or liability.

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

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

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

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

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

The following table summarizes the valuation of the investments according to the fair value measurement classifications as of December 31, 2011:

In thousands	**US Treasuries**
Total	$ 5,201,875
Active Markets for Identical Assets (Level 1)	$ 5,201,875
Observable Inputs (Level 2)	$ 0
Unobservable Inputs (Level 3)	$ 0

The following table summarizes the valuation of the investments according to the fair value measurement classifications as of December 31, 2010:

In thousands	**US Treasuries**
Total	$ 5,414,315
Active Markets for Identical Assets (Level 1)	$ 5,414,315
Observable Inputs (Level 2)	$ 0
Unobservable Inputs (Level 3)	$ 0

6
INCOME TAXES

USAC is a not-for-profit corporation subject to income taxes, including those that arise from the permanent and temporary differences between financial and tax accounting related to meals and entertainment expense, compensated absences and depreciation. Income taxes for 2011 and 2010 are not material and are included as a component of general and administrative expenses.

7
COMMITMENTS AND CONTINGENCIES

Fixed Contract Commitments

Bank of America Agreement — On June 22, 2009, USAC entered into an agreement with Bank of America ("Bank of America Agreement") for banking and investment management services. The Bank of America Agreement is a four-year contract that runs from July 1, 2009 to June 30, 2013. Bank of America provides banking and investment management services for a fixed annual contractual amount that may be satisfied by funds derived by Bank of America from the investment of balances maintained in demand deposit accounts. The Bank of America contract is a cancellable agreement.

Solix Agreement — Solix, Inc. provides to USAC contracted program operations services for the Schools and Libraries and Rural Health Care Programs. On March 23, 2011, USAC signed a contract extension with Solix for a period of one year or until June 30, 2012. The future contractual required payments for the period January 1, 2012 through June 30, 2012, under the Agreement for both the Schools and Libraries and Rural Health Care Programs total $23.8 million.

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 SAIC Agreement, SAIC provides information technology support services to USAC and upgrade and transition support for hardware, software, and related customer support. The future contractual required payments under the SAIC Agreement for the period January 1, 2012 through December 31, 2012, are $5.0 million.

Lease Commitments

USAC leases its office space under an operating lease agreement expiring on September 30, 2020. At December 31, 2011, the future minimal rental payments under these leases are as follows (in thousands):

2012	$ 2,933
2013	3,142
2014	3,223
2015	2,895
2016	3,705
2017	3,808
2018	3,904
2019	4,002
2020	3,754
TOTAL	**$ 31,366**

Rent expenses under operating leases were $2.7 million and $2.4 million for the years ended December 31, 2011 and 2010, respectively.

Legal Dispute

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 $400,000 or more for an individual matter, or for matters relating to the same plaintiff or defendant that in the aggregate amount to $400,000 or more. The Company reports the following matters:

- A complaint was filed against the Company on December 28, 2007 by a Schools and Libraries Support Mechanism service provider (plaintiff) in Texas alleging the Company failed to make payments on approved funding requests for a support mechanism applicant. Plaintiff seeks to recover liquidated damages of approximately $778,000 plus exemplary damages of three times this amount. On September 22, 2008, the United States District Court for the Southern District of Texas dismissed plaintiff's claim with prejudice. Plaintiff appealed the district court's decision to the United States Court of Appeals for the Fifth Circuit. In addition, plaintiff appealed the Company's decision to withhold program funding to the Federal Communications Commission pursuant to 47 C.F.R. Part 54, Subpart I. On August 28, 2009, the FCC Wireline Competition Bureau (Bureau) released an order (DA 09-1946) affirming the Company's decision and directing plaintiff and the Company to take certain actions toward resolving the matter. Plaintiff then filed a Petition for Reconsideration of a portion of the Bureau's decision with the Commission on September 27, 2009. On July 1, 2010, the Deputy Chief of the Bureau released an order (DA 10-1244) denying plaintiff's petition for reconsideration of the Bureau's August 28, 2009 decision. On July 30, 2010, plaintiff filed a petition requesting that the FCC reverse the Bureau's July 1, 2010 order. On January 10, 2012, the FCC issued an order (FCC 12-08) denying plaintiff's petition and holding that Company acted appropriately. On March 8, 2012, the Fifth Circuit Court of Appeals vacated the district court's dismissal of plaintiff's complaint and remanded the case back to the district court for adjudication of the state law tort claims. The Company intends to answer the complaint and mount a vigorous defense. At the present time the Company is unable to estimate whether an unfavorable outcome is likely in the matter pending before the court or the amount of potential loss, if any.

- A complaint was filed against the Company on January 2, 2008 by a Schools and Libraries Support Mechanism service provider (plaintiff) in Kentucky alleging that the Company interfered with plaintiff's contractual relationships with three separate school districts. Plaintiff did not specify 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 plaintiff's complaint. Plaintiff is also pursuing this matter through the administrative appeals process at the Federal Communications Commission. At the present time, the Company is unable to estimate whether an unfavorable outcome is likely or the amount of potential loss. Because this matter is solely before the FCC as an administrative appeal, it will not be reported in the future.

- A complaint was filed against the Company on November 7, 2009, by the Chapter 7 bankruptcy trustee for a Schools and Libraries Support Mechanism service provider (plaintiff) in federal bankruptcy court in Texas demanding turnover of $20,112,899 in program funds frozen due to allegations of fraud involving service providers in the Houston and Dallas Independent School Districts. The Company filed a motion to dismiss the action or, in the alternative, remove the action from the bankruptcy court to the overseeing federal district court. The bankruptcy court held a hearing on this matter on March 19, 2010. On April 5, 2010, the bankruptcy court issued a report and recommendation to the overseeing federal district court that the matter be removed from the bankruptcy court, as requested by the Company. The bankruptcy court did not rule on the Company's motion to dismiss, which will now be decided by the district court. On December 3, 2010, the parties agreed to suspend the litigation for six months to provide the Company an opportunity to review and approve or deny payments of outstanding invoices submitted by plaintiff for services provided to the Houston and Dallas school districts. The Company completed the invoice reviews and issued denials of payment and rescission of commitments notices to plaintiff on March 29, 2011.

On May 31, 2011, plaintiff filed a petition with the FCC, pursuant to 47 C.F.R. Part 54, Subpart I, for review of the Company's denials of payment and rescission of commitment notices issued to plaintiff on March 29, 2011. The crux of the petition is not that the Company failed to adhere to FCC rules or orders, but that the FCC orders upon which the Company relied to revoke the funding decisions and seek recovery of paid invoices were improvidently issued by the FCC and should be rescinded, or that the application of the rules should be waived by the FCC in this case. In addition, the petition alleges that plaintiff was misled by the Company into performing work for the Houston Independent School District (HISD) in 2007. During this time period, the Department of Justice (DOJ) investigation was underway. It has been the Company's longstanding practice that it may not disclose its knowledge of FCC and/or DOJ investigations absent express permission from the FCC to do so. It has also been the Company's longstanding practice that it will not make disbursements to program beneficiaries that are under law enforcement investigation. Plaintiff claims that the Company failed to disclose the real reason for the hold on plaintiff's invoices, which caused plaintiff to complete work for HISD that it would not have performed if it had known the real reason for the payment hold.

On November 28, 2011, the FCC released an order (FCC 11-175) denying plaintiff's appeal of the Company's invoice denials. With regard to that order, the FCC found that: (i) HISD selected its service providers well before the completion of the 2002-2004 competitive bidding processes. For Funding Year 2003, HISD selected a predecessor entity to plaintiff, 24 days before the close of the 28-day competitive bidding process; (ii) HISD employees accepted substantial gifts from the predecessor entity, which tainted the competitive bidding process; and (iii) HISD did not have a signed contract in place with a service provider when it filed its FCC Form 471 for Funding Year 2002.

In addition, on June 3, 2011, plaintiff filed a motion for leave to file an amended complaint. The amended complaint re-alleges the original turnover claim, and in addition alleges claims for unjust enrichment, negligent misrepresentation and fraud based upon the same general allegation of misrepresentation contained in its petition for review to the FCC. The motion for leave was granted by the court. In response to the amended complaint, on June 27, 2011, the Company filed a motion requesting the court dismiss the complaint because plaintiff should be required to exhaust its administrative remedies before the FCC in this matter, which it has not yet done, and the FCC has primary jurisdiction to interpret its program rules. Plaintiff filed a response to the Company's motion on August 8, 2011. The Company filed a reply to plaintiff's response on September 7, 2011. With the issuance of the FCC order on November 28, 2011, plaintiff has effectively exhausted its administrative remedies. The parties are now waiting for the district court to take action on the Company's motion to dismiss. In addition, plaintiff has appealed the FCC's November 28, 2011 order to the United States Court of Appeals for the Fifth Circuit. At the present time, USAC is unable to estimate whether an unfavorable outcome is likely or the amount or range of potential loss.

The United States Department of Justice has also filed a related $20 million claim against plaintiff for violations of the Federal False Claims Act.

- On October 26, 2009, a telecommunications carrier and its related entities (collectively, plaintiff) filed a Chapter 11 bankruptcy petition. On December 21, 2009, the Company filed claims in the bankruptcy proceeding against plaintiff for High Cost Program support payments made to plaintiff identified through audits as improper payments due to plaintiff's failure to comply with program rules. These claims total approximately $3 million. Plaintiff then filed nine appeals with the Company of the audit findings covering 13 entities. On June 15, 2010, plaintiff filed a motion for estimation with the bankruptcy court seeking to effectively preempt the appeals process established by the FCC in 47 C.F.R. Part 54, Subpart I by having the court decide the proper amount of audit recoveries that should be allowed to the Company, which plaintiff believes should be $0. The Company argued in its response to plaintiff's motion that the regulatory scheme for processing and deciding appeals was established by the FCC, which should have primary jurisdiction to interpret its rules and determine the validity of plaintiff's appeals. On October 14, 2011, the Company and plaintiff entered into a settlement of all outstanding litigation. As part of the settlement the Company agreed that plaintiff could resubmit previously submitted appeals and appeals not yet submitted for review by the Company pursuant to the requirements of 47 C.F.R. Part 54, Subpart I. This matter is now closed and will not be reported in the future.

- On March 9, 2001, a telecommunications carrier (plaintiff) filed a Chapter 11 bankruptcy petition. At that time, the National Exchange Carrier Association (NECA) was processing USF contributor collections, including contributor bankruptcy matters,

on behalf of the Company. NECA filed on behalf of the Company a prepetition claim for approximately $5.75 million in USF contribution obligations owed by plaintiff. On May 1, 2002, plaintiff filed an objection stating that the claim should be reduced to approximately $2.53 million. A notice of hearing on the motion was served on NECA. However, on July 1, 2001, the Company transferred processing of USF contribution matters to PriceWaterhouseCoopers, LLP (PwC). NECA claims that it sent a notice to the bankruptcy court of the change in processing agent and the corresponding change in address for receiving notices. However, the court claims to have not received this notice, and the Company was not notified of plaintiff's objection or given an opportunity to respond. The claim was reduced by the court to the approximately $2.53 million amount requested by plaintiff given that the Company failed to appear to contest the motion. The Company learned of actions in the case in September 2003 as a result of Company counsel generally checking on the status of cases directly with the court. The Company requested that plaintiff consent to reopen the matter given what appears to be a mistake by the court in not processing the change of address sent by NECA. Plaintiff would not consent, and in May 2004 the Company appealed the matter to the United States District Court that oversees the bankruptcy court. On September 28, 2010, the court denied the Company's motion. The Company appealed the court's decision to the United States Court of Appeals for the Second Circuit on November 12, 2010. On June 29, 2011, the Circuit Court denied the Company's appeal. This case is now closed and will be removed from future reports.

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

8

RETIREMENT PLANS

USAC has a 401(k) Retirement Savings Plan covering all USAC 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 $2.4 million and $2.2 million through December 31, 2011 and 2010, respectively.

9

SUBSEQUENT EVENTS

USAC has performed an evaluation of subsequent events through August 29, 2012, which is the date the financial statements were available to be issued.

Solix Agreement — On March 27, 2012, USAC notified Solix that it would extend its contract for a period of two years or until June 30, 2014, as provided for under the terms of the Agreement. The future contractual required payments for the period July 1, 2012 through June 30, 2014, under the Agreement for both the Schools and Libraries and Rural Health Care Programs total $82.1 million.

In March 2012, the company was directed by the FCC to begin transferring DCIA receivables directly to the United States Treasury. USAC began transferring receivables to the United States Treasury in May 2012.

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

As of December 31, 2011 and 2010 | (Unaudited – *in thousands*)

	2011						2010					
	SCHOOLS AND LIBRARIES	HIGH COST	HIGH COST BROADBAND	LOW INCOME	RURAL HEALTH CARE	TOTAL USF	SCHOOLS AND LIBRARIES	HIGH COST	HIGH COST BROADBAND	LOW INCOME	RURAL HEALTH CARE	TOTAL USF
ASSETS												
Cash and cash equivalents	$ (477,168)	$ 63,206	$ 485,565	$ 27,681	$ 391,664	$ 490,948	$ (500,578)	$ 19,583	$ 85,177	$ 86,371	$ 461,097	$ 151,650
Investments & CMV Adj	5,201,875	0	0	0	0	5,201,875	5,414,315	0	0	0	0	5,414,315
Receivables	675,529	566,111	0	230,135	6,752	1,478,527	439,877	642,747	0	138,373	5,521	1,226,518
Allowance for doubtful accounts	(328,184)	(149,292)	0	(47,345)	(3,442)	(528,263)	(183,165)	(124,355)	0	(25,037)	(2,920)	(335,477)
Interest receivable	5,968	611	0	334	480	7,393	3,852	(65)	0	244	(287)	3,744
Assets held for the Federal USF	**5,078,020**	**480,636**	**485,565**	**210,805**	**395,454**	**6,650,480**	**5,174,301**	**537,910**	**85,177**	**199,951**	**463,411**	**6,460,750**
Receivable from USAC	(83,192)	79,432	0	25,831	(9,048)	13,023	(83,192)	79,432	0	25,831	(9,048)	13,023
Receivable from Programs	0	47,000	0	(47,000)	0	0	0	0	0	0	0	0
TOTAL	**$ 4,994,828**	**$ 607,068**	**$ 485,565**	**$ 189,636**	**$ 386,406**	**$ 6,663,503**	**$ 5,091,109**	**$ 617,342**	**$ 85,177**	**$ 225,782**	**$ 454,363**	**$ 6,473,773**
LIABILITIES												
Payable to service providers	$ (20,853)	$ (50)	$ 0	$ (3,174)	$ (1,071)	$ (25,148)	$ (30,256)	$ (1,007)	$ 0	$ (233)	$ (142)	$ (31,638)
Accrued liabilities	(11,021)	(362,266)	0	(178,160)	(427)	(551,874)	(9,232)	(385,404)	0	(124,697)	(276)	(519,609)
TOTAL	**$ (31,874)**	**$ (362,316)**	**$ 0**	**$ (181,334)**	**$ (1,498)**	**$ (577,022)**	**$ (39,488)**	**$ (386,411)**	**$ 0**	**$ (124,930)**	**$ (418)**	**$ (551,247)**

Note — This schedule represents the assets and liabilities of the Federal USF at December 31, 2011 and 2010, 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, 2011 and 2010 | (Unaudited – *in thousands*)

	2011					2010				
	SCHOOLS AND LIBRARIES	HIGH COST	LOW INCOME	RURAL HEALTH CARE	TOTAL USF	SCHOOLS AND LIBRARIES	HIGH COST	LOW INCOME	RURAL HEALTH CARE	TOTAL USF
ADDITIONS										
Amounts billed to contributors	$ 2,246,400	$ 4,434,568	$ 1,657,913	$ 92,770	$ 8,431,651	$ 2,257,890	$ 4,493,582	$ 1,395,617	$ 164,349	$ 8,311,438
Non exchange revenues	(4,219)	(8,123)	(4,005)	(163)	(16,510)	0	0	0	0	0
Interest income	13,830	5,803	331	5,133	25,097	15,165	485	407	1,832	17,889
Total additions	**2,256,011**	**4,432,248**	**1,654,239**	**97,740**	**8,440,238**	**2,273,055**	**4,494,067**	**1,396,024**	**166,181**	**8,329,327**
DEDUCTIONS										
Amount paid and due to service providers	2,108,462	4,012,817	1,748,618	140,709	8,010,606	2,228,543	4,261,146	1,313,124	109,831	7,912,644
Bad debt expenses	148,973	14,926	16,844	319	181,062	46,491	7,558	3,484	326	57,859
Operating expenses	69,575	15,718	5,178	12,775	103,246	67,841	25,542	6,585	11,751	111,719
Unrealized/ realized gain or loss	(16,822)	0	0	0	(16,822)	(3,349)	0	0	0	(3,349)
Non-expenditure financing (FCC transfer)	0	0	0	0	0	0	0	0	0	0
Total deductions	2,310,188	4,043,461	1,770,640	153,803	8,278,092	2,339,526	4,294,246	1,323,193	121,908	8,078,873
CHANGES IN NET ASSETS	**$ (54,177)**	**$ 388,787**	**$ (116,401)**	**$ (56,063)**	**$ 162,146**	**$ (66,471)**	**$ 199,821**	**$ 72,831**	**$ 44,273**	**$ 250,454**

Note — This schedule represents the changes in net assets of the Federal USF at December 31, 2011 and 2010, for each of the support programs.

Combining Supplemental Schedules of Cash Flows Applicable to the Federal USF

For the Year Ended December 31, 2011 | (Unaudited – *in thousands*)

	2011				
	SCHOOLS AND LIBRARIES	HIGH COST	LOW INCOME	RURAL HEALTH CARE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from contributors	$ 2,016,085	$ 4,502,877	$ 1,568,773	$ 92,327	$ 8,180,062
Interest received	13,764	5,127	241	4,367	23,499
Cash paid to service providers	(2,109,375)	(4,041,161)	(1,694,516)	(139,807)	(7,984,859)
Cash paid for administrative costs	(69,575)	(15,718)	(5,178)	(12,775)	(103,246)
Non-expenditure financing (FCC transfer)	(51,331)	(7,114)	71,990	(13,545)	0
Net cash provided by (used in) operating activities	**(200,432)**	**444,011**	**(58,690)**	**(69,433)**	**115,456**
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investments	6,613,095	0	0	0	6,613,095
Purchase of investments	(6,389,253)	0	0	0	(6,389,253)
Net cash used in investing activities	**223,842**	**0**	**0**	**0**	**223,842**
INCREASE (DECREASE) IN CASH EQUIVALENTS	**23,410**	**444,011**	**(58,690)**	**(69,433)**	**339,298**
CASH AND CASH EQUIVALENTS					
Beginning of year	(500,578)	104,760	86,371	461,097	151,650
END OF YEAR	**$ (477,168)**	**$ 548,771**	**$ 27,681**	**$ 391,664**	**$ 490,948**
RECONCILIATION OF CHANGES IN NET ASSETS PROVIDED BY (USED IN) CASH FROM OPERATING ACTIVITIES					
Change in net assets	$ (54,177)	$ 388,787	$ (116,401)	$ (56,063)	$ (162,146)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:					
Bad debt expense	153,192	23,049	20,849	482	197,572
Amortized discount	2,048	0	0	0	2,048
Unrealized/realized gain or loss	(16,822)	0	0	0	(16,822)
Changes in operating assets and liabilities:					
Decrease (increase) in interest receivable	(2,116)	(676)	(90)	(766)	(3,648)
Decrease (increase) in accounts receivable	(230,314)	68,309	(89,140)	(443)	(251,588)
Decrease (increase) in receivable from USAC	0	0	0	0	0
Decrease (increase) in other assets	0	0	0	0	0
Increase (decrease) in liabilities	(912)	(28,344)	54,102	902	25,748
Interfund Transfers	(51,331)	(7,114)	71,990	(13,545)	0
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**$ (200,432)**	**$ 444,011**	**$ (58,690)**	**$ (69,433)**	**$ 115,456**

Note — This schedule reflects the cash flows applicable to the Federal USF for the year ended December 31, 2010, for each of the support programs.

Combining Supplemental Schedules of Cash Flows Applicable to the Federal USF

For the Year Ended December 31, 2010 | (Unaudited – *in thousands*)

	2010				
	SCHOOLS AND LIBRARIES	HIGH COST	LOW INCOME	RURAL HEALTH CARE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from contributors	$ 2,194,736	$ 4,316,397	$ 1,381,776	$ 174,097	$ 8,067,006
Interest received	20,490	480	457	1,822	23,249
Cash paid to service providers	(2,213,467)	(4,299,403)	(1,298,562)	(105,522)	(7,916,954)
Cash paid for administrative costs	(43,906)	(43,567)	(13,917)	(7,107)	(108,497)
Non-expenditure financing (FCC transfer)	0	0	0	0	0
Net cash provided by (used in) operating activities	**(42,147)**	**(26,093)**	**69,754**	**63,290**	**64,804**
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investments	11,126,448	0	0	0	11,126,448
Purchase of investments	(11,069,322)	0	0	0	(11,069,322)
Net cash used in investing activities	**57,126**	**0**	**0**	**0**	**57,126**
INCREASE (DECREASE) IN CASH EQUIVALENTS	**14,979**	**(26,093)**	**69,754**	**63,290**	**121,930**
CASH AND CASH EQUIVALENTS					
Beginning of year	(515,556)	130,853	16,617	397,806	29,720
END OF YEAR	**$ (500,578)**	**$ 104,760**	**$ 86,371**	**$ 461,097**	**$ 151,650**
RECONCILIATION OF CHANGES IN NET ASSETS PROVIDED BY (USED IN) CASH FROM OPERATING ACTIVITIES					
Change in net assets	$ (66,471)	$ 199,821	$ 72,831	$ 44,273	$ 250,454
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:					
Bad debt expense	46,491	7,559	3,483	326	57,859
Amortized discount	6,004	0	0	0	6,004
Unrealized/realized gain or loss	(3,349)	0	0	0	(3,349)
Changes in operating assets and liabilities:					
Decrease (increase) in interest receivable	(679)	(6)	51	(11)	(645)
Decrease (increase) in accounts receivable	(63,154)	(177,186)	(13,422)	9,749	(244,013)
Decrease (increase) in receivable from USAC	23,935	(18,025)	(7,752)	4,644	2,802
Decrease (increase) in other assets	0	0	0	0	0
Increase (decrease) in liabilities	15,076	(38,256)	14,563	4,309	(4,308)
Interfund Transfers	0	0	0	0	0
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**$ (42,147)**	**$ (26,093)**	**$ 69,754**	**$ 63,290**	**$ 64,804**

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

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 Trustees 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, 2011, and have issued our report thereon dated August 29, 2012. 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

Management of the Company is responsible for establishing and maintaining effective 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Company in a separate letter. This report is intended solely for the use of the USAC Board of Directors, Audit Committee and management of and is not intended to be and should not be used by anyone other than these specified parties.

DP George & Company, LLC
August 29, 2012

DP George & Company

2121 Eisenhower Avenue
Suite 606
Alexandria, VA 22314
Telephone 703-229-4437

2012 Universal Service Program Statistics

The following pages contain data from the four universal service programs administered by USAC. To better understand the data, please note the difference between 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 runs from July 1 to June 30 of the following year.

CALENDAR YEAR

The High Cost and Lifeline Programs disburse funds on a calendar year basis. Data in these tables are for calendar year 2012.

APPROVED DISBURSEMENTS

Approved disbursement totals represent support for the months of January through December 2012 for the High Cost and Lifeline Programs. Approved disbursement totals represent support authorized during the months of January through December 2012 for the Rural Health Care and Schools and Libraries Programs. Final disbursement totals might change because of subsequent administrative actions related to approved disbursements. Disbursement data in the calendar year tables may represent multiple funding years in the Rural Health Care and Schools and Libraries Programs.

FUNDING COMMITMENTS

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

Commitments made in calendar year 2012 may be for applications filed during previous funding years and the current funding year.

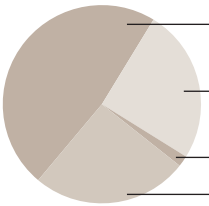
The tables for the Rural Health Care and Schools and Libraries Programs provide calendar year 2012 commitment data and funding year 2012 commitment data for program applicants.

RURAL HEALTH CARE AND SCHOOLS AND LIBRARIES PROGRAMS

Period	Start Date	End Date
Funding Year 2010	July 1, 2010	June 30, 2011
Funding Year 2011	July 1, 2011	June 30, 2012
Funding Year 2012	July 1, 2012	June 30, 2013

2012 Approved Disbursements by Program

(Unaudited – *in thousands*)



Total **$ 8,710,234**

**Includes RHC Pilot Program disbursements.*

High Cost Program

Approved Disbursements by Component, 2012 | (Unaudited – *in thousands*)

State	High Cost Loop	High Cost Model	Interstate Access Support	Interstate Common Line Support	Local Switching Support
Alabama	$ 12,570	$ 14	-$ 333	$ 14,638	$ 1,280
Alaska	61,353	0	0	56,514	14,337
American Samoa	19	0	0	443	575
Arizona	25,982	0	-228	15,799	1,351
Arkansas	17,453	0	-4	14,456	1,848
California	25,605	0	-685	25,230	882
Colorado	13,352	0	-388	8,848	1,880
Connecticut	0	0	-11	0	0
Delaware	0	0	-5	0	0
District of Columbia	0	0	0	0	0
Florida	761	0	-1,162	3,850	987
Georgia	26,318	0	199	32,692	2,789
Guam	867	0	0	6,320	182
Hawaii	12,983	0	-96	4,709	2,444
Idaho	11,805	0	-187	8,686	1,769
Illinois	13,969	0	-37	17,279	-192
Indiana	32,951	0	-144	30,262	1,543
Iowa	25,573	0	-24	38,913	3,624
Kansas	81,288	0	-36	49,518	3,673
Kentucky	20,804	-6	-380	26,494	1,326
Louisiana	25,057	0	-293	14,467	1,086
Maine	976	0	0	7,304	1,347
Maryland	6	0	-56	783	162
Massachusetts	23	0	-30	237	242
Michigan	6,504	0	-14	10,130	1,760
Minnesota	22,993	0	-8	42,136	4,717
Mississippi	10,256	523	-259	7,136	290
Missouri	29,774	0	30	24,066	2,441
Montana	29,025	1	-6	25,828	1,447
Nebraska	21,206	98	-21	21,614	1,497
Nevada	4,682	0	-111	4,963	522
New Hampshire	404	0	-25	4,646	1,380
New Jersey	0	0	-4	257	278
New Mexico	28,906	0	100	18,453	-312
New York	2,820	0	-217	8,921	1,999
North Carolina	5,825	0	-251	26,609	1,566
North Dakota	24,856	0	-3	26,989	1,511
Northern Mariana Islands	0	0	3	0	-23
Ohio	6,818	0	-166	9,938	1,007
Oklahoma	42,604	0	-46	37,943	2,314
Oregon	17,202	0	-168	16,139	1,917
Pennsylvania	882	0	-314	6,050	2,016
Puerto Rico	0	0	0	-965	0
Rhode Island	0	0	-1	0	0
South Carolina	34,416	0	-238	47,831	2,801
South Dakota	28,490	121	0	28,390	3,553
Tennessee	12,784	0	-227	31,049	1,683
Texas	90,029	0	-210	60,019	2,380
Utah	5,254	0	-36	11,502	1,334
Vermont	779	0	-28	6,109	2,263
Virgin Islands	-3,726	0	0	-1,629	0
Virginia	2,070	0	-1,106	9,591	1,645
Washington	7,411	0	-416	9,515	1,639
West Virginia	1,715	-105	-96	2,929	992
Wisconsin	26,078	0	14	38,813	6,261
Wyoming	10,335	-4	-71	9,998	1,559
TOTAL	**$ 880,107**	**$ 644**	**-$ 7,792**	**$ 922,413**	**$ 95,573**

Note — High Cost Model and Interstate Access Support were eliminated in January 2012; Local Switching Support in July 2012. Negative amounts are the result of prior-period adjustments. Numbers may not add due to rounding.

Frozen High Cost Support	Connect America Fund Incremental Support	Connect America Fund ICC	Total 2012	Total 1998–2012	State
$ 56,548	$ 27	$ 4,105	$ 88,849	$ 1,367,600	Alabama
60,721	4,185	7,798	204,908	1,932,688	Alaska
2,429	0	112	3,579	31,608	American Samoa
23,305	763	4,150	71,122	940,911	Arizona
53,829	0	5,582	93,163	1,633,953	Arkansas
38,759	228	2,148	92,167	1,315,638	California
47,523	6,279	2,268	79,763	1,056,238	Colorado
464	0	0	454	17,099	Connecticut
228	0	0	222	6,627	Delaware
0	0	0	0	0	District of Columbia
50,560	722	3,563	59,281	1,012,128	Florida
50,343	42	7,461	119,843	1,602,182	Georgia
8,108	0	0	15,476	154,452	Guam
10,619	402	6,692	37,752	444,593	Hawaii
23,483	5,724	3,839	55,120	716,574	Idaho
31,521	4,686	5,427	72,653	839,395	Illinois
16,010	138	2,798	83,558	842,495	Indiana
56,101	1,918	8,870	134,975	1,291,665	Iowa
49,475	0	5,722	189,641	2,223,911	Kansas
51,260	0	9,682	109,181	1,098,269	Kentucky
69,989	0	1,944	112,249	1,648,333	Louisiana
17,830	5	1,323	28,784	438,039	Maine
2,303	0	206	3,405	50,724	Maryland
1,467	0	343	2,282	63,923	Massachusetts
18,065	7,470	2,306	46,221	733,185	Michigan
24,889	10,956	7,524	113,208	1,365,279	Minnesota
216,881	0	2,546	237,373	2,940,212	Mississippi
42,187	410	7,379	106,286	1,308,027	Missouri
25,791	1,879	2,204	86,170	1,040,388	Montana
34,011	1,135	6,894	86,434	953,717	Nebraska
12,098	1,395	1,337	24,887	356,349	Nevada
1,620	0	1,678	9,705	142,300	New Hampshire
258	0	385	1,175	30,974	New Jersey
24,690	2,314	4,132	78,284	864,171	New Mexico
23,848	479	4,026	41,876	722,231	New York
39,267	1,077	8,770	82,863	984,506	North Carolina
39,146	64	2,295	94,858	944,812	North Dakota
1,556	0	0	1,535	35,016	Northern Mariana Islands
12,664	1,814	5,904	37,979	498,645	Ohio
52,154	29	10,848	145,846	1,655,186	Oklahoma
36,675	2,131	5,512	79,408	1,004,732	Oregon
55,195	0	5,604	69,432	761,280	Pennsylvania
159,622	0	0	158,658	2,058,550	Puerto Rico
30	0	0	29	549	Rhode Island
16,173	336	9,161	110,480	1,184,752	South Carolina
4,371	140	3,652	68,717	896,876	South Dakota
15,797	322	4,470	65,877	752,455	Tennessee
78,140	950	10,417	241,725	3,137,610	Texas
3,051	62	3,488	24,656	295,064	Utah
8,622	2,020	2,293	22,059	366,820	Vermont
16,462	0	0	11,106	334,303	Virgin Islands
54,514	2,123	5,700	74,538	963,578	Virginia
57,779	9,400	3,780	89,108	1,193,946	Washington
44,571	4,593	1,059	55,659	898,273	West Virginia
61,477	38,472	6,178	177,293	1,615,665	Wisconsin
21,632	74	1,720	45,244	683,405	Wyoming
$ 1,926,111	**$ 114,765**	**$ 215,295**	**$ 4,147,117**	**$ 51,451,926**	**TOTAL**

High Cost Program

Approved Disbursements by Carrier Type, 2012 | (Unaudited – *in thousands*)

State	Price Cap/Rate of Return Affiliates	Rate of Return Carriers	Competitive Carriers	Total 2012
Alabama	$ 46,226	$ 31,440	$ 11,182	$ 88,849
Alaska	23,901	64,505	116,503	204,908
American Samoa	0	1,137	2,441	3,579
Arizona	16,273	47,077	7,773	71,122
Arkansas	41,542	37,296	14,325	93,163
California	42,509	49,603	55	92,167
Colorado	45,183	25,483	9,096	79,763
Connecticut	454	0	0	454
Delaware	222	0	0	222
District of Columbia	0	0	0	0
Florida	44,944	8,537	5,800	59,281
Georgia	39,048	62,285	18,511	119,843
Guam	0	7,319	8,158	15,476
Hawaii	2,337	26,771	8,644	37,752
Idaho	22,468	25,580	7,072	55,120
Illinois	22,865	36,843	12,945	72,653
Indiana	16,128	67,639	-209	83,558
Iowa	10,909	76,174	47,892	134,975
Kansas	8,851	139,583	41,207	189,641
Kentucky	30,633	54,057	24,491	109,181
Louisiana	30,067	41,822	40,360	112,249
Maine	8,374	10,473	9,937	28,784
Maryland	2,248	1,157	0	3,405
Massachusetts	1,437	845	0	2,282
Michigan	16,572	20,227	9,422	46,221
Minnesota	25,625	76,037	11,547	113,208
Mississippi	83,352	20,163	133,858	237,373
Missouri	30,589	60,598	15,099	106,286
Montana	15,959	58,289	11,922	86,170
Nebraska	10,822	51,121	24,491	86,434
Nevada	12,022	10,970	1,896	24,887
New Hampshire	1,399	8,109	197	9,705
New Jersey	299	877	0	1,175
New Mexico	11,831	51,166	15,287	78,284
New York	21,421	17,732	2,723	41,876
North Carolina	44,009	34,286	4,568	82,863
North Dakota	547	55,296	39,015	94,858
Northern Mariana Islands	663	0	872	1,535
Ohio	16,908	21,070	0	37,979
Oklahoma	14,101	93,778	37,968	145,846
Oregon	21,957	40,782	16,669	79,408
Pennsylvania	58,280	10,878	274	69,432
Puerto Rico	36,054	0	122,604	158,658
Rhode Island	29	0	0	29
South Carolina	11,711	94,016	4,753	110,480
South Dakota	1,365	63,370	3,981	68,717
Tennessee	15,247	49,604	1,026	65,877
Texas	59,136	160,936	21,652	241,725
Utah	3,130	21,409	117	24,656
Vermont	10,599	11,432	27	22,059
Virgin Islands	10,990	0	116	11,106
Virginia	46,922	18,847	8,769	74,538
Washington	40,359	21,030	27,719	89,108
West Virginia	34,083	6,511	15,065	55,659
Wisconsin	62,434	75,932	38,926	177,293
Wyoming	12,789	23,393	9,061	45,244
TOTAL	**$ 1,187,825**	**$ 1,993,484**	**$ 965,807**	**$ 4,147,117**

Note — Numbers may not add due to rounding.

Lifeline Program

Approved Disbursements by Component, 2012 | (Unaudited – *in thousands*)

State	Lifeline	Link Up	Toll Limitation Service	Total 2012	Total 1998–2012
Alabama	$ 39,343	$ 513	$ 680	$ 40,537	$ 181,354
Alaska	19,478	58	41	19,577	167,170
American Samoa	45	0	0	44	861
Arizona	31,199	133	11	31,343	241,606
Arkansas	55,869	3,699	23	59,591	135,603
California	160,252	4,078	72	164,402	3,848,018
Colorado	2,260	5	3	2,268	43,163
Connecticut	13,967	3	0	13,970	93,641
Delaware	4,517	1	0	4,517	12,275
District of Columbia	4,894	-3	0	4,890	21,696
Florida	117,939	62	153	118,154	572,459
Georgia	124,368	7,315	199	131,882	383,406
Guam	349	2	0	351	4,317
Hawaii	625	16	0	641	12,037
Idaho	2,752	7	4	2,763	44,693
Illinois	93,738	4,460	67	98,265	299,021
Indiana	19,008	-19	1	18,990	80,904
Iowa	9,944	302	5	10,250	60,371
Kansas	9,574	450	42	10,066	45,503
Kentucky	25,061	2,688	125	27,874	119,708
Louisiana	105,950	4,567	410	110,927	287,796
Maine	12,386	362	7	12,755	130,658
Maryland	74,341	5,974	0	80,315	140,259
Massachusetts	38,363	0	0	38,363	274,844
Michigan	66,118	461	150	66,729	352,570
Minnesota	9,111	300	3	9,415	86,203
Mississippi	31,508	327	275	32,110	125,081
Missouri	33,865	1,190	87	35,143	125,711
Montana	2,874	42	16	2,932	38,781
Nebraska	1,378	2	3	1,384	26,634
Nevada	14,226	1,335	1	15,563	58,529
New Hampshire	2,820	1	0	2,821	13,198
New Jersey	46,474	242	1	46,718	219,587
New Mexico	13,872	120	18	14,010	142,597
New York	141,528	20	212	141,761	961,368
North Carolina	67,211	-381	-47	66,783	345,663
North Dakota	1,840	11	1	1,852	37,283
Northern Mariana Islands	210	3	0	214	1,541
Ohio	109,569	246	264	110,079	555,396
Oklahoma	236,374	12,987	3,027	252,387	771,008
Oregon	6,048	7	5	6,060	75,117
Pennsylvania	58,487	213	2	58,702	278,845
Puerto Rico	39,943	581	0	40,524	268,511
Rhode Island	8,626	648	0	9,274	66,959
South Carolina	24,092	72	116	24,280	89,542
South Dakota	1,132	4	0	1,135	49,630
Tennessee	48,069	183	90	48,342	232,878
Texas	95,774	-297	393	95,870	995,047
Utah	4,701	8	11	4,720	44,488
Vermont	2,100	6	1	2,107	41,567
Virgin Islands	97	0	0	97	872
Virginia	31,955	2	1	31,957	121,862
Washington	26,063	176	14	26,253	222,317
West Virginia	18,552	654	0	19,206	46,639
Wisconsin	17,978	63	2	18,042	142,003
Wyoming	290	1	0	291	7,769
TOTAL	**$ 2,129,105**	**$ 53,899**	**$ 6,492**	**$ 2,189,496**	**$ 13,746,590**

Note — Support for Link Up and Toll Limitation Service has been reduced pursuant to the FCC's Lifeline Reform Order. For this reason, amounts shown here are lower than in previous years. Numbers may not add due to rounding. Negative amount results from over-claimed support recovered after an audit.

Lifeline Program

Approved Disbursements by Carrier Type, 2012 | (Unaudited – *in thousands*)

State	Incumbent Carriers	Competitive Carriers	Total 2012
Alabama	$ 35,771	$ 4,766	$ 40,537
Alaska	17,120	2,457	19,577
American Samoa	3	41	44
Arizona	26,851	4,492	31,343
Arkansas	57,384	2,207	59,591
California	17,185	147,217	164,402
Colorado	472	1,796	2,268
Connecticut	11,613	2,357	13,970
Delaware	4,423	95	4,517
District of Columbia	4,561	329	4,890
Florida	100,138	18,016	118,154
Georgia	122,732	9,150	131,882
Guam	116	235	351
Hawaii	230	411	641
Idaho	379	2,384	2,763
Illinois	93,225	5,039	98,265
Indiana	16,097	2,894	18,990
Iowa	8,032	2,218	10,250
Kansas	8,037	2,029	10,066
Kentucky	24,729	3,145	27,874
Louisiana	108,448	2,479	110,927
Maine	6,831	5,925	12,755
Maryland	79,686	629	80,315
Massachusetts	31,146	7,217	38,363
Michigan	61,003	5,727	66,729
Minnesota	4,409	5,006	9,415
Mississippi	28,627	3,483	32,110
Missouri	31,481	3,662	35,143
Montana	1,114	1,817	2,932
Nebraska	352	1,032	1,384
Nevada	12,912	2,651	15,563
New Hampshire	2,457	364	2,821
New Jersey	38,248	8,469	46,718
New Mexico	8,582	5,428	14,010
New York	116,148	25,613	141,761
North Carolina	56,918	9,865	66,783
North Dakota	96	1,756	1,852
Northern Mariana Islands	7	207	214
Ohio	92,025	18,054	110,079
Oklahoma	239,440	12,947	252,387
Oregon	2,223	3,837	6,060
Pennsylvania	48,547	10,155	58,702
Puerto Rico	29,803	10,721	40,524
Rhode Island	8,242	1,032	9,274
South Carolina	19,527	4,753	24,280
South Dakota	134	1,001	1,135
Tennessee	42,039	6,303	48,342
Texas	41,577	54,293	95,870
Utah	2,090	2,630	4,720
Vermont	0	2,107	2,107
Virgin Islands	34	63	97
Virginia	30,655	1,303	31,957
Washington	17,930	8,324	26,253
West Virginia	18,468	738	19,206
Wisconsin	13,721	4,322	18,042
Wyoming	32	259	291
TOTAL	**$ 1,744,050**	**$ 445,446**	**$ 2,189,496**

Note — Numbers may not add due to rounding.

Rural Health Care Program

Commitments and Approved Disbursements, 2012 | (Unaudited – *in thousands*)

	COMMITMENTS			APPROVED DISBURSEMENTS	
State	**Funding Year 2012**	**Calendar Year 2012**	**Total 1998–2012**	**Calendar Year 2012**	**Total 1998–2012**
Alabama	$ 0	$ 723	$ 2,585	$ 729	$ 2,381
Alaska	0	46,993	318,590	51,960	305,927
American Samoa	0	254	1,160	469	1,051
Arizona	0	2,030	16,139	2,140	14,588
Arkansas	0	1,401	5,220	1,642	4,715
California	0	6,409	16,920	6,346	12,757
Colorado	0	281	2,256	340	2,167
Connecticut	0	0	0	0	0
Delaware	0	0	1	0	1
District of Columbia	0	0	0	0	0
Florida	0	302	3,581	457	3,317
Georgia	8	2,916	12,174	2,596	11,368
Guam	0	135	489	185	487
Hawaii	0	0	2,440	97	2,376
Idaho	0	523	2,876	592	2,422
Illinois	0	2,341	9,700	2,660	9,021
Indiana	0	822	4,841	879	4,496
Iowa	1	719	4,610	729	4,212
Kansas	3	437	4,680	580	4,516
Kentucky	6	1,138	6,220	961	5,767
Louisiana	0	275	1,423	194	1,298
Maine	0	21	495	33	389
Maryland	0	28	36	5	8
Massachusetts	0	106	741	110	738
Michigan	0	2,269	13,932	2,928	13,136
Minnesota	0	3,649	22,995	3,536	21,148
Mississippi	0	460	2,008	388	1,845
Missouri	0	933	4,016	1,002	3,629
Montana	0	1,013	8,011	916	7,632
Nebraska	0	1,259	14,577	1,660	13,916
Nevada	297	376	1,075	85	713
New Hampshire	0	11	128	5	118
New Jersey	0	0	0	0	0
New Mexico	0	939	5,950	1,159	5,372
New York	0	157	838	133	741
North Carolina	0	477	3,180	333	2,870
North Dakota	0	1,326	9,805	1,262	8,829
Northern Mariana Islands	0	8	8	0	0
Ohio	0	694	3,837	707	3,387
Oklahoma	0	2,069	6,137	1,656	5,140
Oregon	0	363	1,889	445	1,731
Pennsylvania	6	147	897	59	754
Puerto Rico	0	0	0	0	0
Rhode Island	0	0	0	0	0
South Carolina	0	45	377	20	336
South Dakota	0	701	8,981	719	8,474
Tennessee	0	555	2,621	564	2,492
Texas	2	3,214	11,597	3,109	10,075
Utah	0	815	7,279	930	6,572
Vermont	0	62	684	30	629
Virgin Islands	0	48	852	48	830
Virginia	0	2,066	7,862	2,073	6,629
Washington	0	218	1,205	247	1,056
West Virginia	0	204	1,654	172	1,542
Wisconsin	0	7,745	37,995	7,929	35,469
Wyoming	0	199	2,039	464	1,943
TOTAL	**$ 323**	**$ 99,878**	**$ 599,607**	**$ 106,282**	**$ 561,012**

Note — Funding year data as of 12/31/2012. Numbers may not add due to rounding.

Rural Health Care Pilot Program

Commitments and Approved Disbursements, 2012 | (Unaudited – *in thousands*)

	COMMITMENTS				APPROVED DISBURSEMENTS	
State	**Funding Year 2007**	**Funding Year 2008**	**Funding Year 2009**	**Total Funding Years 2007–2009**	**Calendar Year 2012**	**Total 2008–2012**
Alabama	$ 0	$ 0	$ 2,749	$ 2,749	$ 752	$ 1,888
Alaska	0	209	1,673	1,882	0	209
Arizona	0	0	7,511	7,511	0	0
Arkansas	0	0	4,218	4,218	133	471
California	0	0	22,911	22,911	257	279
Colorado	0	0	10,794	10,794	3,430	5,358
Florida	0	0	83	83	0	0
Georgia	0	0	2,233	2,233	720	1,555
Guam	0	0	89	89	0	0
Hawaii	0	0	4,653	4,653	890	1,121
Illinois	0	15	21,357	21,372	5,743	12,285
Indiana	0	0	14,529	14,529	2,766	3,905
Iowa	0	3,138	13,857	16,995	2,632	16,419
Kentucky	0	0	2,945	2,945	36	58
Louisiana	0	0	15,570	15,570	0	375
Maine	0	0	16,491	16,491	814	2,175
Massachusetts	0	0	87	87	0	0
Michigan	0	0	19,535	19,535	2,600	3,117
Minnesota	0	522	4,965	5,487	1,157	2,354
Missouri	0	287	2,202	2,489	198	1,327
Montana	0	3,373	12,040	15,413	4,070	9,471
Nebraska	0	148	18,143	18,291	980	15,858
New Hampshire	0	0	3,145	3,145	0	0
New Mexico	0	0	11,737	11,737	761	931
New York	0	98	15,400	15,498	2,887	4,387
North Carolina	0		12,169	12,169	2,016	2,836
North Dakota	0	0	912	912	45	164
Northern Mariana Islands	0	0	46	46	0	0
Ohio	0	0	27,209	27,209	3,959	25,733
Oregon	0	2,079	14,272	16,351	4,854	10,539
Pennsylvania	0	661	6,145	6,805	1,224	3,653
South Carolina	0	1,353	6,592	7,945	1,901	6,893
South Dakota	0	1,985	2,206	4,191	856	3,967
Tennessee	0	0	6,834	6,834	0	0
Texas	0	0	15,931	15,931	0	0
Utah	0	0	8,815	8,815	2,464	3,396
Vermont	0	0	5,713	5,713	12	12
Virginia	0	0	2,709	2,709	25	25
Washington	0	0	99	99	53	53
West Virginia	0	0	7,052	7,052	222	1,299
Wisconsin	467	854	979	2,300	259	1,983
Wyoming	0	0	797	797	438	438
TOTAL	**$ 467**	**$ 14,721**	**$ 347,398**	**$ 362,586**	**$ 49,153**	**$ 144,533**

Note — Not all states receive Pilot Program funding. Numbers may not add due to rounding.

Rural Health Care Pilot Program

Commitments by Category, All Funding Years | (Unaudited – *in thousands*)

Category of Service	Commitments for Funding Years 2007–2009
Network Design	$ 1,882
Network Equipment, including Engineering and Installation	28,446
Infrastructure/Outside Plant (Engineering)	2,927
Infrastructure/Outside Plant (Construction)	38,807
Internet 2/NLR/Internet Connection	1,417
Leased/Tariffed facilities or services	274,837
Network Management/Maintenance/Operations Cost (not captured elsewhere)	14,270
TOTAL	**$ 362,586**

Note — Numbers may not add due to rounding.

Schools and Libraries Program

Commitments and Approved Disbursements, 2012 | (Unaudited – *in thousands*)

	COMMITMENTS			APPROVED DISBURSEMENTS		
State	**Funding Year 2012**	**Calendar Year 2012**	**Total 1998–2012**	**Funding Year 2012**	**Calendar Year 2012**	**Total 1998–2012**
Alabama	$ 24,517	$ 50,948	$ 555,263	$ 5,329	$ 50,919	$ 451,137
Alaska	45,317	69,587	330,906	8,086	45,800	253,110
American Samoa	1,661	3,285	33,408	0	1,208	25,704
Arizona	42,866	86,529	864,370	3,330	66,256	606,354
Arkansas	20,539	38,003	336,309	1,930	22,661	207,636
California	220,405	479,418	4,927,266	18,545	319,306	3,461,051
Colorado	20,672	39,649	327,936	1,771	30,219	236,879
Connecticut	16,506	27,152	366,157	1,066	18,127	291,693
Delaware	3,469	5,046	26,261	267	3,456	19,227
District of Columbia	2,262	16,002	186,952	53	10,345	115,784
Florida	80,365	116,135	1,124,072	5,060	80,450	865,553
Georgia	61,665	135,558	1,142,659	5,748	101,502	867,394
Guam	1,021	1,029	25,332	4	1,150	17,755
Hawaii	9,604	13,507	68,771	52	2,369	33,638
Idaho	15,221	22,426	104,872	3,110	15,500	68,808
Illinois	63,190	140,265	1,467,202	2,331	98,436	1,064,686
Indiana	47,869	57,221	449,818	8,561	39,031	307,438
Iowa	15,078	19,119	177,594	3,208	16,270	128,658
Kansas	20,111	28,985	234,958	1,982	18,129	172,459
Kentucky	26,800	37,959	554,777	1,951	41,883	380,156
Louisiana	45,510	75,447	709,521	8,237	53,278	550,044
Maine	4,212	11,424	103,338	89	7,779	77,904
Maryland	11,528	18,575	302,360	680	42,971	224,830
Massachusetts	20,752	33,428	482,516	1,776	20,172	346,300
Michigan	35,976	51,393	859,026	3,139	42,968	627,326
Minnesota	14,071	23,614	361,796	1,320	24,332	277,247
Mississippi	25,624	33,973	508,689	3,000	25,306	368,291
Missouri	32,885	60,639	602,586	2,042	34,455	441,366
Montana	5,238	6,489	64,377	1,041	4,327	48,998
Nebraska	10,342	14,126	127,390	1,699	11,149	103,631
Nevada	7,497	11,571	85,003	76	7,486	58,830
New Hampshire	3,200	3,869	34,072	128	2,618	22,937
New Jersey	53,862	85,573	835,003	1,777	56,267	578,337
New Mexico	15,996	43,937	572,369	1,401	28,912	389,463
New York	77,341	160,427	4,164,819	4,141	117,203	2,630,773
North Carolina	58,866	101,387	799,679	9,236	68,570	611,550
North Dakota	5,116	5,663	58,794	1,394	3,841	47,349
Northern Mariana Islands	624	661	14,931	153	638	12,017
Ohio	54,536	96,916	1,109,831	7,800	76,673	805,302
Oklahoma	60,665	92,043	729,812	5,558	65,343	526,998
Oregon	12,958	19,029	216,941	765	17,687	156,701
Pennsylvania	51,632	95,476	1,122,574	4,770	65,312	879,848
Puerto Rico	15,726	37,986	360,428	3,727	15,200	216,907
Rhode Island	3,349	9,947	102,031	405	6,895	80,960
South Carolina	16,566	39,543	653,401	574	42,249	484,378
South Dakota	2,525	6,543	76,941	368	6,339	53,559
Tennessee	40,142	43,224	789,340	9,787	44,748	588,515
Texas	132,370	285,606	3,368,672	9,889	208,461	2,524,740
Utah	4,574	8,732	215,765	55	17,659	148,416
Vermont	3,599	4,520	31,743	176	2,305	19,893
Virgin Islands	863	2,325	71,725	104	7,089	60,665
Virginia	32,409	42,243	464,632	2,139	30,826	361,679
Washington	19,454	34,878	397,438	1,244	27,372	293,930
West Virginia	20,172	34,347	188,416	1,127	15,481	115,972
Wisconsin	20,264	25,970	425,567	1,011	28,884	320,602
Wyoming	5,263	5,612	53,105	175	4,374	37,497
TOTAL	**$ 1,664,845**	**$ 3,014,957**	**$ 34,369,518**	**$ 163,388**	**$ 2,218,186**	**$ 24,668,874**

Note — Funding year data as of 12/31/2012. Funding Year 2012: July 1, 2012 – June 30, 2013. Numbers may not add due to rounding.

Schools and Libraries Program

Commitments by Discount Band, Funding Year 2012 | (Unaudited – *in thousands*)

Discount Band	Telecom Services	Internet Access	Internal Connections	Basic Maintenance	Total	% of Total
20–29%	$ 1,479	$ 868	Internal Connections and Basic Maintenance were funded at the 90% level as of 12/31/2012.		$ 2,347	0.14%
30–39%	2,602	795			3,396	0.20%
40–49%	69,676	26,023			95,699	5.75%
50–59%	80,774	28,707			109,481	6.58%
60–69%	146,027	48,073			194,100	11.66%
70–79%	214,230	102,810			317,040	19.04%
80–89%	369,521	143,855			513,376	30.84%
90%	162,340	89,861	$ 143,334	$ 33,871	429,406	25.79%
TOTAL	**$ 1,046,648**	**$ 440,992**	**$ 143,334**	**$ 33,871**	**$ 1,664,845**	**100.00%**

Note — Funding year data as of 12/31/2012. Funding Year 2012: July 1, 2012 – June 30, 2013. Numbers may not add due to rounding.

Schools and Libraries Program

Commitments by Applicant Type, Funding Year 2012 | (Unaudited)

Applicant Type	Applications Funded	Commitments (in thousands)	% of Applications	% of Total
Consortium	695	$ 108,076	1.93%	6.49%
Library	4,858	$ 84,176	13.49%	5.06%
School	9,855	$ 170,869	27.37%	10.26%
School District	20,591	$ 1,301,666	57.19%	78.19%
Statewide	5	$ 58	0.01%	0.00%
TOTAL	**36,004**	**$ 1,664,845**	**100.00%**	**100.00%**

Note — Funding year data as of 12/31/2012. Funding Year 2012: July 1, 2012 – June 30, 2013. Numbers may not add due to rounding.

Schools and Libraries Program

Commitments by Rural v. Urban, Funding Year 2012 | (Unaudited)

	Applications Funded	Commitments (in thousands)	% of Applications	% of Total
Urban	10,348	$ 240,099	28.74%	14.42%
Rural	5,023	$ 53,101	13.95%	3.19%
N/A	20,633	$ 1,371,645	57.31%	82.39%
TOTAL	**36,004**	**$ 1,664,845**	**100.00%**	**100.00%**

Note — "N/A" applies to either FCC Forms 471 that did not include this information, or to FCC Forms 471 shared by both rural and urban entities (that therefore could not be classified).

Note — Funding year data as of 12/31/2012. Funding Year 2012: July 1, 2012 – June 30, 2013. Numbers may not add due to rounding.

Universal Service Fund

Approved Disbursements by Program, Calendar Year 2012 | (Unaudited – *in thousands*)

State	High Cost	Lifeline	Rural Health Care*	Schools and Libraries	Total 2012	Total 1998–2012
Alabama	$ 88,849	$ 40,537	$ 1,481	$ 50,919	$ 181,786	$ 2,004,360
Alaska	204,908	19,577	51,960	45,800	322,245	2,659,104
American Samoa	3,579	44	469	1,208	5,300	59,224
Arizona	71,122	31,343	2,140	66,256	170,861	1,803,459
Arkansas	93,163	59,591	1,775	22,661	177,190	1,982,378
California	92,167	164,402	6,603	319,306	582,478	8,637,743
Colorado	79,763	2,268	3,770	30,219	116,020	1,343,805
Connecticut	454	13,970	0	18,127	32,551	402,433
Delaware	222	4,517	0	3,456	8,195	38,130
District of Columbia	0	4,890	0	10,345	15,235	137,480
Florida	59,281	118,154	457	80,450	258,342	2,453,457
Georgia	119,843	131,882	3,316	101,502	356,543	2,865,905
Guam	15,476	351	185	1,150	17,162	177,011
Hawaii	37,752	641	987	2,369	41,749	493,765
Idaho	55,120	2,763	592	15,500	73,975	832,497
Illinois	72,653	98,265	8,403	98,436	277,757	2,224,408
Indiana	83,558	18,990	3,645	39,031	145,224	1,239,238
Iowa	134,975	10,250	3,361	16,270	164,856	1,501,325
Kansas	189,641	10,066	580	18,129	218,416	2,446,389
Kentucky	109,181	27,874	997	41,883	179,935	1,603,958
Louisiana	112,249	110,927	194	53,278	276,648	2,487,846
Maine	28,784	12,755	847	7,779	50,165	649,165
Maryland	3,405	80,315	5	42,971	126,696	415,821
Massachusetts	2,282	38,363	110	20,172	60,927	685,805
Michigan	46,221	66,729	5,528	42,968	161,446	1,729,334
Minnesota	113,208	9,415	4,693	24,332	151,648	1,752,231
Mississippi	237,373	32,110	388	25,306	295,177	3,435,429
Missouri	106,286	35,143	1,200	34,455	177,084	1,880,060
Montana	86,170	2,932	4,986	4,327	98,415	1,145,270
Nebraska	86,434	1,384	2,640	11,149	101,607	1,113,756
Nevada	24,887	15,563	85	7,486	48,021	474,421
New Hampshire	9,705	2,821	5	2,618	15,149	178,553
New Jersey	1,175	46,718	0	56,267	104,160	828,898
New Mexico	78,284	14,010	1,920	28,912	123,126	1,402,534
New York	41,876	141,761	3,020	117,203	303,860	4,319,500
North Carolina	82,863	66,783	2,349	68,570	220,565	1,947,425
North Dakota	94,858	1,852	1,307	3,841	101,858	1,038,437
Northern Mariana Islands	1,535	214	0	638	2,387	48,574
Ohio	37,979	110,079	4,666	76,673	229,397	1,888,463
Oklahoma	145,846	252,387	1,656	65,343	465,232	2,958,332
Oregon	79,408	6,060	5,299	17,687	108,454	1,248,820
Pennsylvania	69,432	58,702	1,283	65,312	194,729	1,924,380
Puerto Rico	158,658	40,524	0	15,200	214,382	2,543,968
Rhode Island	29	9,274	0	6,895	16,198	148,468
South Carolina	110,480	24,280	1,921	42,249	178,930	1,765,901
South Dakota	68,717	1,135	1,575	6,339	77,766	1,012,506
Tennessee	65,877	48,342	564	44,748	159,531	1,576,340
Texas	241,725	95,870	3,109	208,461	549,165	6,667,472
Utah	24,656	4,720	3,394	17,659	50,429	497,936
Vermont	22,059	2,107	42	2,305	26,513	428,921
Virgin Islands	11,106	97	48	7,089	18,340	396,670
Virginia	74,538	31,957	2,098	30,826	139,419	1,453,773
Washington	89,108	26,253	300	27,372	143,033	1,711,302
West Virginia	55,659	19,206	394	15,481	90,740	1,063,725
Wisconsin	177,293	18,042	8,188	28,884	232,407	2,115,722
Wyoming	45,244	291	902	4,374	50,811	731,052
TOTAL	**$ 4,147,117**	**$ 2,189,496**	**$ 155,435**	**$ 2,218,186**	**$ 8,710,234**	**$ 90,572,935**

Note — Numbers may not add due to rounding.

* Includes RHC Pilot Program disbursements.

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