

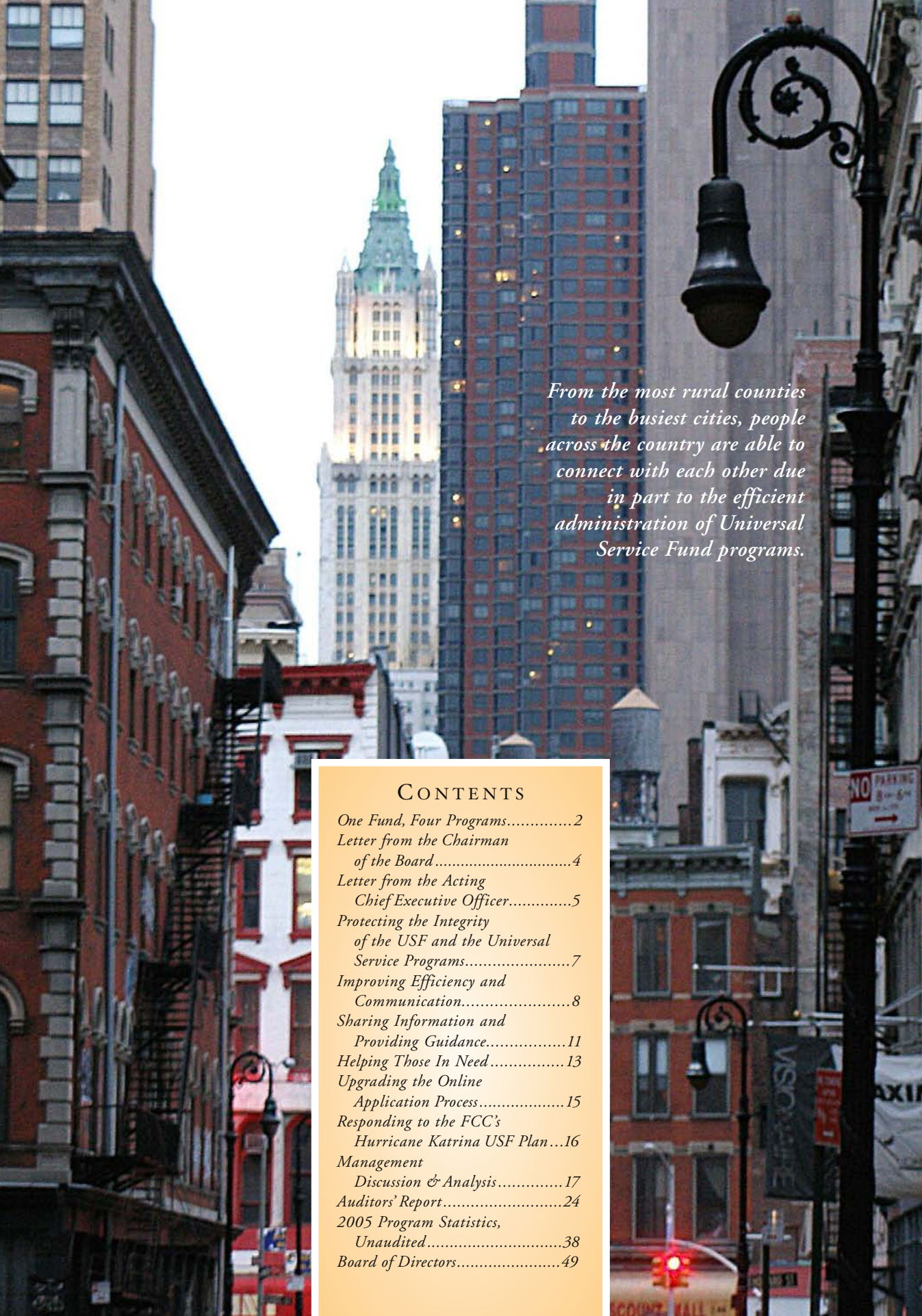
UNIVERSAL SERVICE ADMINISTRATIVE COMPANY


USAC
Universal Service Administrative Company

Helping Keep Americans Connected

2005
annual report





*From the most rural counties
to the busiest cities, people
across the country are able to
connect with each other due
in part to the efficient
administration of Universal
Service Fund programs.*

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Efficiency

IS AN IMPORTANT GOAL.

It's that simple. The Universal Service Administrative Company (USAC) is all about efficient management and administration of the Universal Service Fund (USF). It is an important goal for USAC and the Federal Communications Commission (FCC), which oversees the USF and USAC.



Because of the USF, family members, no matter where they are, can keep in touch. The USF helps connect people by supporting telecommunications networks in big-city schools and libraries as well as in the quiet desert, such as on reservations in New Mexico and Arizona, or remote villages in Alaska.

Because telecommunications carriers in rural areas participate in USF programs, a small telephone company in Montana can serve an area as large as West Virginia.

Since the FCC and USAC began offering the country's schools and libraries the use of less expensive, easy-to-use online forms to apply for USF support, a library in Elsa, Texas, can now offer students Internet access.

In Alaska, USF support has enabled a school district covering 37,000 square miles to provide high-speed Internet access and distance-learning.

USAC and the FCC are also working to increase outreach to the telemedicine community. Without USF support, many rural post-surgery cardiac patients would have to travel hundreds of miles for follow-up visits.

USAC's efficient management of the USF on behalf of the FCC makes more funds available to help the people the USF serves and reduces the burden on Americans who support the programs.

WHAT IS USAC? *USAC is a private, not-for-profit corporation responsible for administering the USF and the universal service programs in accordance with federal law and under FCC oversight.*

*USAC administers the USF and manages the four universal service programs—HIGH COST, LOW INCOME, RURAL HEALTH CARE, and SCHOOLS AND LIBRARIES—*as required by the 1996 Telecommunications Act and FCC rules, regulations, orders, and directives. Across the nation, consumers, rural health care facilities, and schools and libraries are provided affordable access to modern telecommunications services through these programs.

ONE FUND, FOUR *Programs*

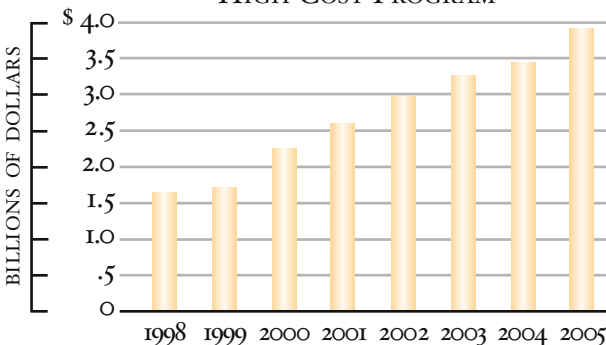
The HIGH COST PROGRAM ensures that consumers in rural areas have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas.



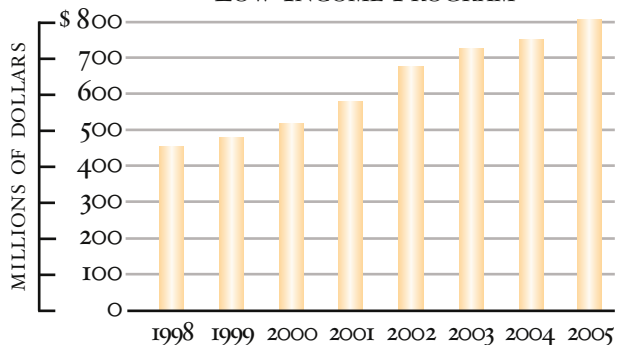
The LOW INCOME PROGRAM, commonly known as Lifeline and Link Up, provides discounts that make basic, local telephone service affordable to help over 7 million low-income consumers stay connected.



HIGH COST PROGRAM



LOW INCOME PROGRAM



Unaudited disbursements by Calendar Year, as of December 31, 2005

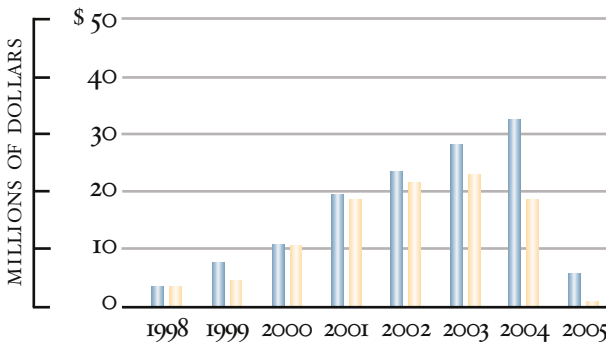
The RURAL HEALTH CARE PROGRAM provides reduced rates to rural health care providers for telecommunications and Internet services necessary for the provision of health care.



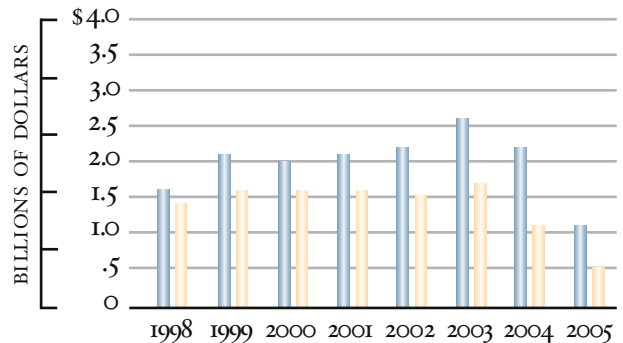
The SCHOOLS AND LIBRARIES PROGRAM, commonly known as E-Rate, provides discounts to help schools and libraries in every U.S. state and territory receive affordable telecommunications and Internet access.



RURAL HEALTH CARE PROGRAM



SCHOOLS AND LIBRARIES PROGRAM



■ Unaudited commitments by Funding Year, as of December 31, 2005
■ Unaudited disbursements by Funding Year, as of December 31, 2005
 Note: A Funding Year runs from July 1 to June 30.

Where DO CONTRIBUTIONS COME FROM? WHO BENEFITS?

Here's how it works. The USF is funded through mandatory contributions by providers of interstate and international telecommunications services. The contribution amount is calculated as a percentage of a carrier's interstate and international telecommunications revenues

and is often reflected on consumers' phone bills. Although it is consumers and program applicants who ultimately benefit from the USF, only companies that provide telecommunications and other eligible services actually receive support payments from the USF.

In my year as Chairman of the USAC Board of Directors, I have been impressed by the commitment of Board members and the efforts of USAC's staff to continually improve the administration of the Universal Service Fund (USF). I extend compliments to my Board colleagues in what was an exciting and challenging year for USAC and the USF.

Board members have a tremendous responsibility to the American public and a fiduciary duty to the USF to ensure that administration of the USF is sensible, systematic, and service-oriented. At the same time, USAC, as the administrator, must ensure that its program procedures are suitable, streamlined, transparent, and in compliance with Federal Communications Commission rules.

In 2005, USAC made many administrative improvements to benefit USF stakeholders. The following pages offer testimonials from program participants on these administrative improvements. In addition, this annual report provides information on the activities and financial standing of USAC. I hope it can be used as a valuable resource tool for USF program information.



LETTER FROM
THE CHAIRMAN
OF THE BOARD

In USAC's role as USF administrator, it is essential that any policy changes made by the FCC are implemented as seamlessly as possible. Close coordination with the FCC is critical to USAC's administrative success. In 2005, USAC's quick implementation of the Commission's order providing relief to victims of Hurricane Katrina demonstrated how our close coordination with the FCC benefits stakeholders.

USAC's staff devoted countless hours to provide expert input and suggested improvements in the FCC rulemaking proceeding regarding USF management, administration, and oversight. USAC looks forward to working closely with the Commission in 2006 to craft and implement program improvements.

Looking forward, there are many critical universal service issues pending before policymakers in 2006. USAC stands ready to assist policymakers by providing USF information and administrative experience to ensure that their decisions can be effectively implemented and will result in the greatest benefit to the USF and its many stakeholders.

Finally, I would like to recognize USAC's former CEO, Lisa Zaina, for her leadership. Lisa's efforts led to numerous administrative and program improvements. With Lisa's resignation at the end of 2005, USAC is in the capable hands of Scott Barash, USAC's General Counsel and Acting CEO. The Board selected Scott for his many years of experience and service to USAC and looks forward to working closely with him as the Acting CEO in 2006.

BRIAN L. TALBOTT
Chairman of the USAC Board of Directors

The Universal Service Fund (USF) provides essential support to our nation's telecommunications infrastructure. USAC has been entrusted with a central role in collecting and distributing this support. This annual report highlights USAC's accomplishments in 2005 and reports on USAC's financial standing.

You will see common themes throughout this report—efficiency, flexibility, focus, and responsiveness. Since I joined USAC as its first General Counsel in 1999, the USAC staff has always pursued continuous improvement in its administration of the USF and the four universal service programs. I am proud to have been a part of the many improvements at USAC, and I am honored that the Board of Directors named me Acting Chief Executive Officer effective January 1, 2006.

In 2005, USAC demonstrated its efficiency, flexibility, focus, and responsiveness for the benefit of the USF and its stakeholders. USAC's leadership team made it a priority to fulfill USAC's vision of managing the USF efficiently to help keep Americans connected and competitive in a global economy. To do this, it was necessary to streamline administrative functions and ensure focus on program integrity and efficiency.

USAC made key structural and personnel changes, including hiring its first Chief Operating Officer and creating an External Relations Division to consolidate outreach efforts. The company implemented business practices that both saved money and increased efficiency, including the implementation of electronic certification forms for contributors, new online forms for beneficiaries, and other initiatives to improve and enhance efficient USF administration.

Also in 2005, USAC welcomed the opportunity to participate in the FCC's rulemaking proceeding concerning USF administration. USAC provided a wealth of information, shared its expertise, and offered suggestions to improve program administration.

Enhancing communication and improving education to USAC's stakeholders was a key initiative in 2005. USAC conducted training sessions around the country, hosted and participated in webinars, participated at stakeholder industry events, redesigned its website to increase functionality and usability, and distributed newsletters.

USAC made great strides in 2005 to improve its administration of the USF. The company is focused on continuing steady progress toward improving operating efficiency and program integrity while delivering excellent service to the many USF stakeholders. USAC is well positioned to succeed in 2006 under the guidance of its Board of Directors and the oversight of the FCC.



LETTER FROM
THE ACTING CHIEF
EXECUTIVE OFFICER

A handwritten signature in blue ink, appearing to read "D. Scott Barash". The signature is fluid and stylized, with a long horizontal flourish extending to the right.

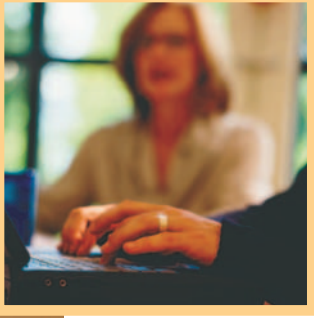
D. SCOTT BARASH
Acting CEO

A photograph of two men in business attire looking at a computer monitor. The man on the left is standing and leaning over the desk, looking at the screen with a thoughtful expression. The man on the right is sitting at the desk, pointing at the screen with his right hand. The monitor displays a software interface with various fields and text. The scene is lit with warm, indoor lighting.

Protecting

THE INTEGRITY OF THE

INCREASING EFFICIENCY AND SECURITY—In 2005, USAC's Finance Division completed a unified electronic certification (E-cert) connection that reduced manual workflow, provided improved security through robust user authorization and authentication, automated the user ID creation process, and provided a delegated account management interface for creating, activating, and deactivating various users of the system. This system allows authorized company officers of service providers and contributors to electronically certify FCC Form 498, the *Service Provider Identification Number and Contact Information Form*, and FCC Form 499, the *Telecommunications Reporting Worksheet*.

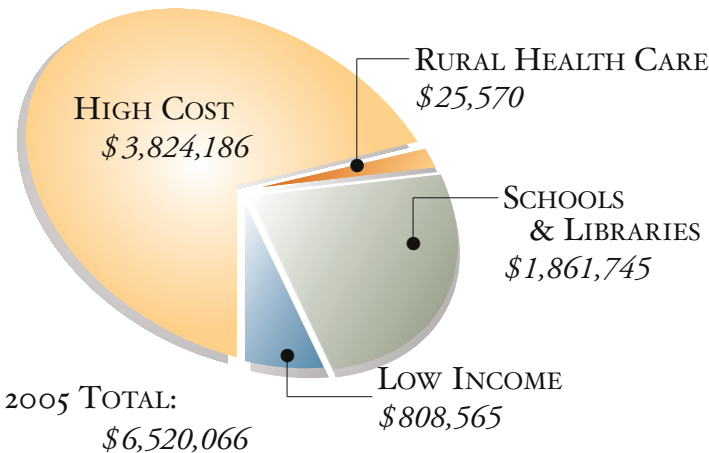


USF AND THE UNIVERSAL SERVICE PROGRAMS

In addition to the many measures USAC employs internally, USAC works with the FCC to protect the integrity of the USF, including making certain USAC has procedures and controls in place to ensure that USF programs and functions are operating in an effective and efficient manner and in compliance with laws and regulations. USAC provides a whistleblower hotline for reporting instances where program funds are being misapplied or where potential program violations may exist.

TO LEARN MORE, GO TO
www.usac.org

*Calendar Year Disbursements by Program
As of December 31, 2005
(Unaudited · in thousands)*



ENSURING PROGRAM INTEGRITY THROUGH AUDITING

USAC's Internal Audit Division improves program integrity by conducting audits of USAC and the four USF support programs. The division performs process reviews and analysis of support program operations and is also responsible for audits of beneficiaries, contributors, and service providers as well as directing the work performed by external auditors. USAC's audit function has performed over 350 audits across all programs and contributors since inception. In 2005, the audit function concentrated its audit focus to partner with the FCC Office of Inspector General and performed over 100 audits in the Schools and Libraries Program.

“With the implementation of the CETC line count report, my company was able to reduce its filing burdens and receive High Cost support to build out our cellular system and implement upgrades to our digital service to add new features.”

—RICK MORROW
PRINCIPAL
VIRGINIA CELLULAR LLC



EFFICIENCY AND
COMMUNICATION

In 2005, USAC’s High Cost and Low Income Division made a number of High Cost program improvements to help eligible telecommunications carriers (ETCs) find information online. The division created and made available special tools to enable program participants to look up past disbursement data and deadlines for specific program

TO LEARN MORE, GO TO
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components. The division also implemented the use of FCC Form 525, the *Competitive Carrier Line Count Report*, which allows competitive ETCs to complete one form to report lines

for all components of High Cost support. The division sent all ETCs e-mail notices and conducted a webinar to introduce the new form.

2005 High Cost Study Areas by Category (Unaudited)


	INCUMBENT CARRIERS							
	RATE-OF-RETURN CARRIERS				Price Cap	Total ILEC	Competitor Study Areas	Total Study Areas
	Cost Company	Average Schedule	Total					
RURAL	756	488	1,244	105	1,349	189	1,538	
NON-RURAL	5	1	6	80	86	160	246	
TOTAL	761	489	1,250	185	1,435	349	1,784	

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

Service Provider Participation

LEVEL OF PROGRAM PARTICIPATION	SERVICE PROVIDERS
HIGH COST	1,784 eligible telecommunications carriers
LOW INCOME	1,609 eligible telecommunications carriers
RURAL HEALTH CARE	438 service providers (telecom and Internet access)
SCHOOLS & LIBRARIES	4,349 service and equipment providers*

*Note: As of December 31, 2005.
Based on receipt of invoice payments in 2005.



GETTING THE WORD OUT
Educating stakeholders is one of USAC's primary responsibilities. In 2005, USAC redesigned its website, launched a weekly News Brief for Schools and Libraries program participants, conducted four training sessions for 1,000 participants throughout the U.S., hosted webinars for beneficiaries and service providers, and participated in stakeholder industry events for all four programs. The new USAC website at www.usac.org has substantially expanded the amount of program information available online and makes finding information much easier.



Assessment of USAC Contractors

CONTRACTOR/VENDOR	DESCRIPTION OF WORK	PROCUREMENT METHOD
BEARINGPOINT, INC.	<i>Site Visits</i>	<i>Competitive Bid</i>
KPMG LLP	<i>Audits</i>	<i>Competitive Bid</i>
LASALLE BANK CORP.	<i>Banking Services</i>	<i>Competitive Bid</i>
SOLIX, INC.	<i>Schools, Libraries & Rural Health Care Support</i>	<i>Competitive Bid</i>
TELCORDIA TECHNOLOGIES, INC.	<i>High Cost & Low Income Support</i>	<i>Competitive Bid</i>

In 2005, USAC contracted with BearingPoint, Inc.; KPMG LLP; LaSalle Bank Corp.; Solix, Inc.; and Telcordia Technologies, Inc. for provision of major services associated with managing the USF and the universal service programs. All performed the tasks associated with their respective contracts in a satisfactory manner.

“For the past few years, the Oregon Public Utility Commission’s relationship with telecommunications carriers has become increasingly complicated as we certify more Oregon Telecommunications Assistance Program (OTAP—Oregon’s Lifeline program) telecommunications providers. I have come to rely on USAC’s expertise to guide us through some of the complexities that arise while working with these companies to offer OTAP benefits to Oregonians.”

—DAMARA PARIS
MANAGER, OTAP

Sharing

INFORMATION AND PROVIDING GUIDANCE

USAC’s High Cost and Low Income Division provides information to state regulatory agencies on the applicability of Low Income program rules to wireless and other competi-

tive carriers in the states, as well as program support claims made by carriers. In turn, states that have their own programs help USAC by providing information about their eligibility criteria. The sharing of

TO LEARN MORE, GO TO
www.usac.org

information and good working relationships help both the federal and state programs work more efficiently.

USAC’s implementation of the FCC’s Enhanced Tribal Lifeline and Link Up rules has helped increase subscribership among low-income consumers in both tribal and non-tribal areas across the country. Tribal Lifeline subscribers grew from approximately 4,928 in 2000, the first year this support was available, to approximately 233,117 in 2005, a 4,630% increase. Non-tribal Lifeline subscribers grew from approximately 5,868,876 in 2000 to approximately 6,892,924 in 2005, a 17% increase. In 2000, 2,038 tribal consumers received Link Up discounts, which reduces the one-time cost associated with initiating telephone service. In 2005, an additional 78,185 new consumers on tribal lands received the discounts. In 2000, 1,689,910 non-tribal consumers received Link Up discounts, and 1,515,019 new non-tribal consumers used the discounts to initiate telephone service in 2005.



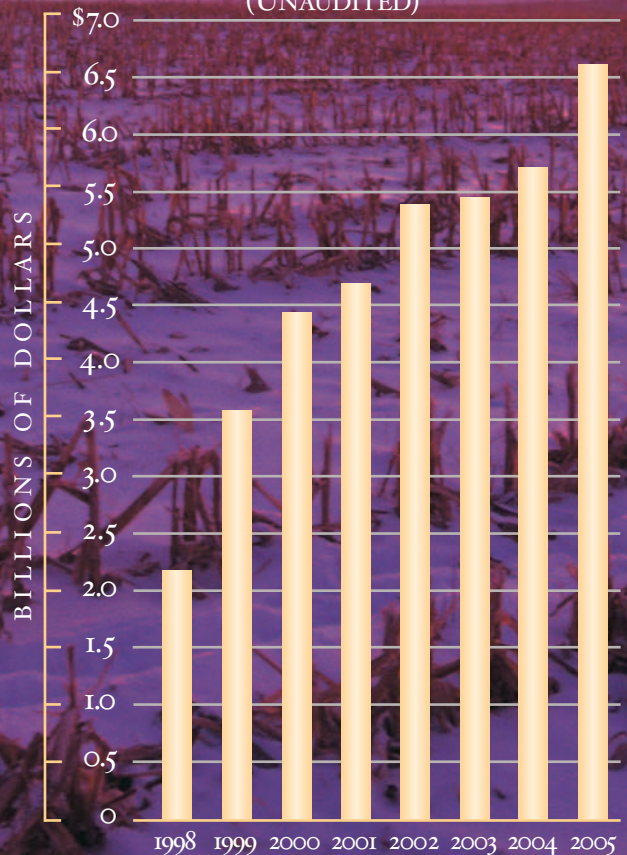
USAC Administrative Costs (Unaudited)

YEAR	ADMINISTRATIVE EXPENSES	PERCENT OF TOTAL DISBURSEMENTS
1998	\$36,692,000	1.66%
1999	\$38,627,000	1.05%
2000	\$43,384,000	0.97%
2001	\$39,284,000	0.82%
2002	\$46,192,000	0.85%
2003	\$58,791,000	1.07%
2004	\$64,349,000	1.12%
2005	\$85,359,000	1.29%

Helping

THOSE IN NEED,

OVERALL USF DISBURSEMENTS
(UNAUDITED)



Source: USAC FCC Comments filed October 18, 2005 in FCC Docket No. 96-45. 2005 data based on USAC 2005 unaudited financial data.

“After the FCC issued its Hurricane Katrina order, USAC’s Rural Health Care customer service staff really helped during this stressful time. Being able to reach a contact person was important because it’s a complicated process and having a contact made it easier to negotiate the forms and be certain the service qualified under the special hurricane relief.”

—DAWN TAYLOR
DIRECTOR OF FUNDING AND IT
PRIMARY CARE PROVIDERS FOR A HEALTHY FELICIANA

FROM ENTIRELY DEVASTATED AREAS TO ENTIRELY RURAL AREAS

In 2005, USAC’s Rural Health Care Division played an integral role in the FCC’s Hurricane Katrina relief program. After extensive outreach to applicants and service providers, 230 healthcare providers from the affected areas applied for this special support.

The division also implemented FCC rule changes that included accepting mobile satellite clinics as eligible entities and applying a 50 percent discount on advanced telecommunications and Internet services to entirely rural areas. Also in 2005, USAC implemented the new FCC-mandated application deadline of June 30, beginning with Funding Year 2004. Continuing to use its outreach tools, the division created and sent reminders notifying all applicants of the new due date. This effort resulted in 1,261 applications in June 2005 compared with 290 applications in June 2004.

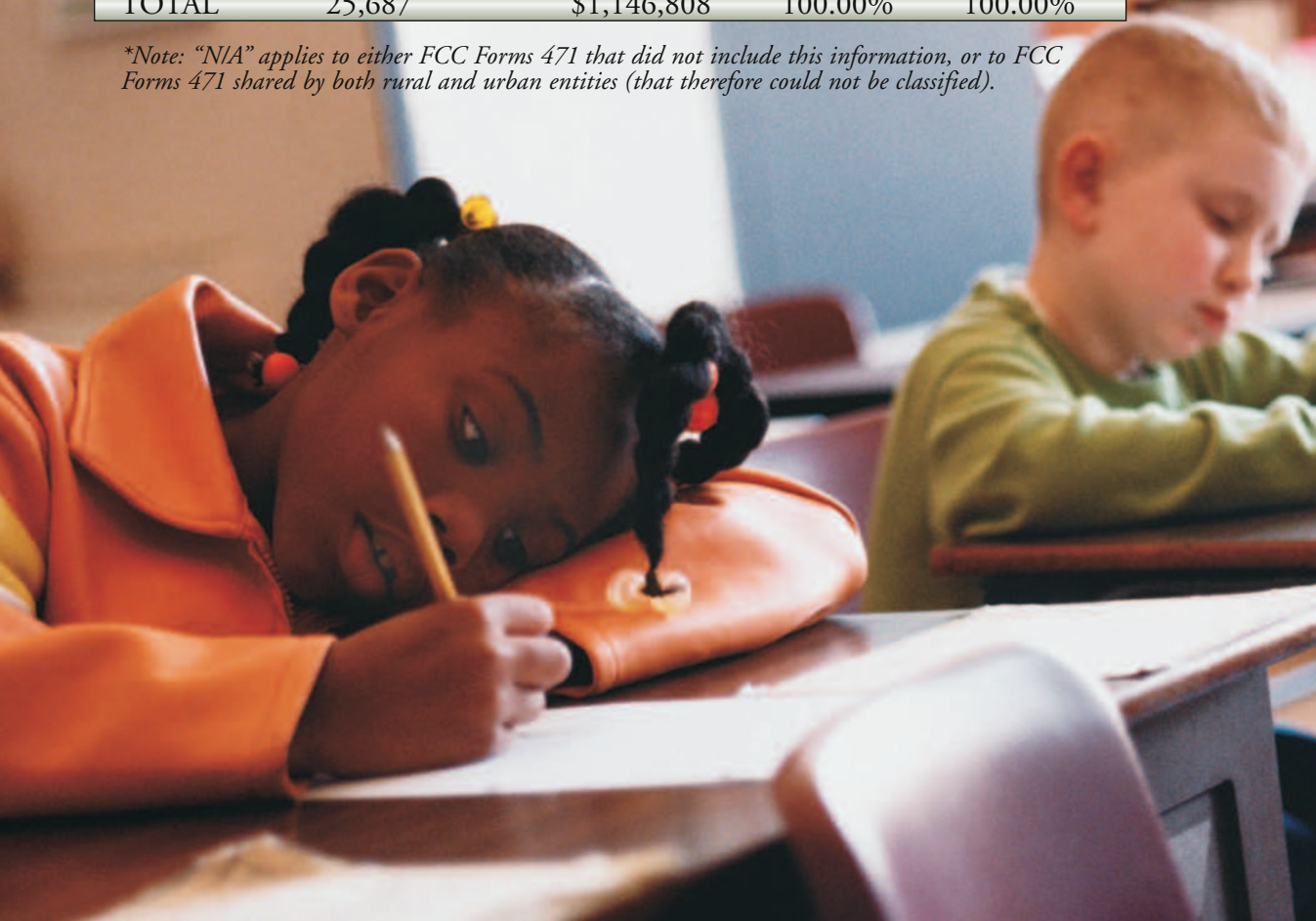
TO LEARN MORE, GO TO
www.usac.org



*Schools & Libraries Commitments
by Rural/Urban Type · Funding Year 2005
(Unaudited)*

TYPE	APPLICATIONS FUNDED	COMMITMENTS (THOUSANDS)	% OF APPS.	% OF TOTAL
URBAN	6,102	\$90,845	23.76%	7.92%
RURAL	4,058	\$30,574	15.79%	2.67%
N/A *	15,527	\$1,025,389	60.45%	89.41%
TOTAL	25,687	\$1,146,808	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).*



OUTREACH TO SCHOOLS AND LIBRARIES—As part of its expanded outreach initiative, USAC visited 851 school and library recipients of USF support in 2005. These visits, which included applicants in all 50 states and numerous territories, served many purposes, including identifying ways for USAC to improve its outreach and education, answering questions and educating applicants about program rules, verifying the receipt and function of invoiced schools and libraries products and services, and ensuring that program funds were being used in compliance with regulatory requirements. USAC plans to expand this initiative to other USF programs in 2006.

“I have talked to a lot of individual applicants in the state about the PIN system. The overall reaction is ‘This is so fast and easy to use.’ At first, some applicants didn’t understand how to use it. But once they got their first certification finished, they were very, very happy with it.”

—DELLA MATTHIS
ALASKA STATE E-RATE COORDINATOR

Upgrading

THE ONLINE
APPLICATION PROCESS
TO IMPROVE PERFORMANCE
AND SPEED

In 2005, the Schools and Libraries Division upgraded its personal identification number (PIN) system originally implemented in 2001. The upgrade now allows applicants to certify FCC forms online using a new six- to eight-digit PIN and enables more efficient forms processing. USAC also put in place an online Item 21 attachment option for the first

time to provide applicants with the capability to save information electronically, links to the Eligible Products Database for Internal Connections, standardized formatting for data entry, and online guidance to ensure that all required data is included. These technology improvements enhance the application process and enable USAC to issue funding decisions more quickly.





In the aftermath of Hurricane Katrina, FCC Chairman Kevin J. Martin announced unprecedented steps to provide immediate relief to consumers and businesses harmed by the devastating hurricane. Use of available USF funds was included in the disaster relief proposals.

The FCC released its Hurricane Katrina order on October 14, 2005. USAC staff prepared and launched a dedicated website, www.katrina-usf.org, one week later. The website provides information regarding eligibility requirements, form deadlines, and frequently asked questions to make it easy for affected consumers, telecommunications companies, rural health care providers, and schools and libraries to seek USF support and begin the process of rebuilding their communities.

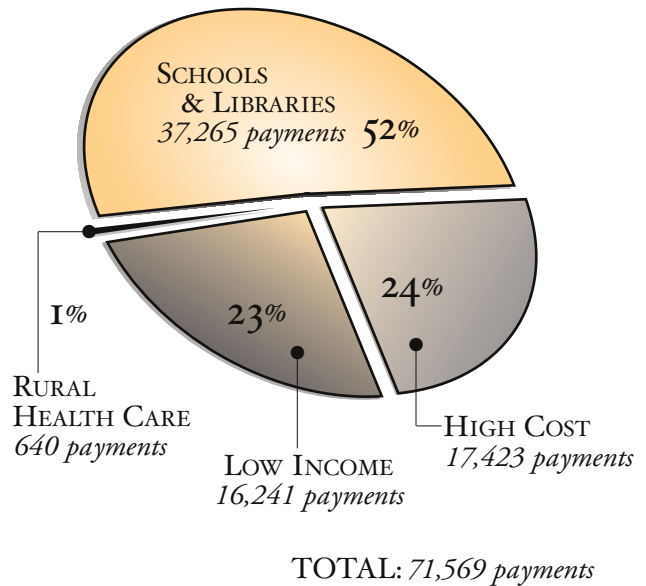
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MANAGEMENT DISCUSSION AND ANALYSIS

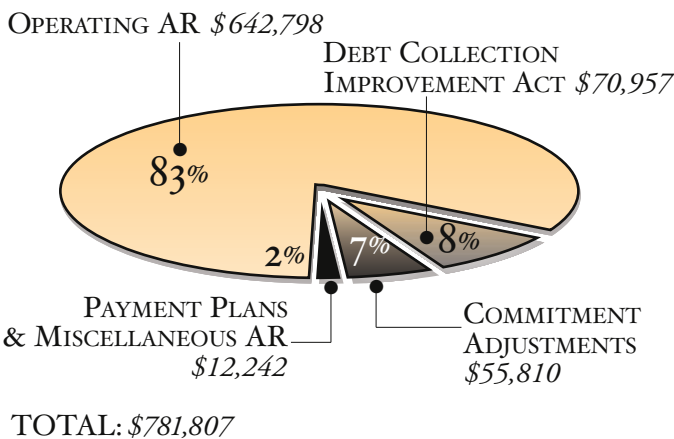
The FCC, in two orders in CC Docket Nos. 96-45 and 97-21, released May 8, 1997 and November 20, 1998, respectively, determined that the Universal Service Administrative Company (USAC) should serve as the permanent administrator of the Universal Service Fund (USF) and the high cost, low income, rural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

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

2005 USF Payments by Type
(Unaudited)



Accounts Receivable by Receivable Type
(Unaudited . in thousands)



At December 31, 2005, Accounts Receivable accounted for 17% of total assets, down from 19% at December 31, 2004. The balance in Accounts Receivable of \$781,807 is a 3% increase over the December 31, 2004 Accounts Receivable balance of \$758,407. The chart above represents the different components of Accounts Receivable at December 31, 2005.

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

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

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

The functions of USAC also include, but are not limited to: development of applications and associated instructions as needed for the Support Programs; administering the application process to ensure compliance with FCC rules and regulations; creating and maintaining a website and related operational infrastruc-

MANAGEMENT DISCUSSION AND ANALYSIS

ture for such processes; performing outreach and public education functions; authorizing audits of telecommunication carriers, schools, libraries, and rural health care providers; and development and implementation of other functions unique to the Support Programs.

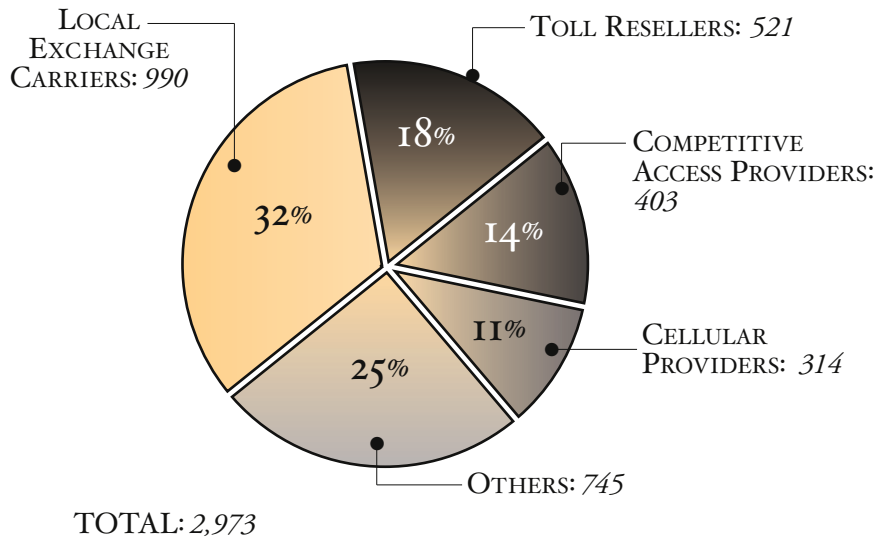
Funds collected by USAC from required contributors to the USF are restricted as to their intended use related to the Support Programs discussed above. Accordingly, such funds have been reflected as assets held for Federal USF and liabilities related to assets held for Federal USF in the accompanying statements of financial position. Available funds are maintained and invested by USAC. Unaudited financial data for 2005 have been presented for comparative and discussion purposes only.

OVERVIEW OF FINANCIAL DATA *(in thousands)*

The accompanying unaudited financial statements and tables are the responsibility of USAC management and reflect all necessary adjustments and reclassifications that are necessary for fair presentation of the period presented. The results for the year ended December 31, 2005, are not considered to be final until the 2005 financial statement audit is completed by our independent auditors. These unaudited financial statements and tables should be read in conjunction with the audited financial statements and the notes thereto included herein.

Expenditures by the USF have continued to grow. In continuing to serve its mission, USAC increased its staff over the last three years to meet the increasing demands of administering the USF and the Support Programs. USAC's staff has also grown as management has moved certain functions previously outsourced in-house to more efficiently and effectively administer the USF and the Support Programs. For the years ended December 31, 2003 and 2004, USAC employed a total of 107 and 118 employees, respectively. At December 31, 2005, USAC employed a total of 143 employees, for an increase of 21% over 2004. This staffing increase in 2005 is due in large part to expanded audit initiatives, establishment of the internal FCC Form 499 Data Collection function, and the creation of the External Relations Division. Accordingly, personnel costs have increased over the past three years as well. For the years ended December 31, 2004 and

*2005 Average Monthly Invoices
by Primary Carrier Type
(Unaudited)*

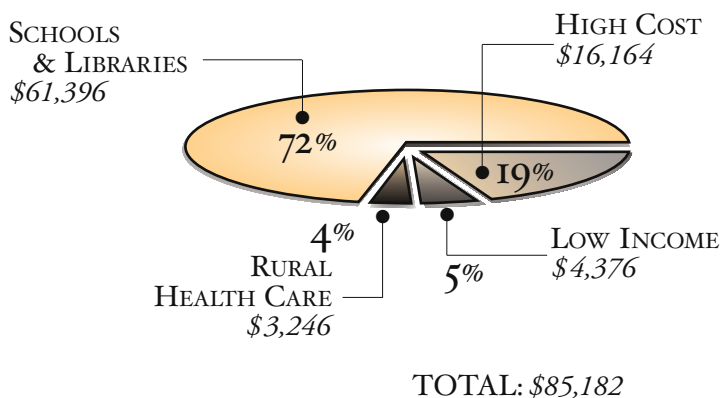


Contributions 2005 Year in Review—In 2005, the USAC Finance Billing Team processed 100% of the approximately 36,000 contributor invoices on time. The chart above depicts the 2005 average approximate breakdown of monthly invoices by carrier type.

MANAGEMENT DISCUSSION AND ANALYSIS

2003, personnel costs were \$11,892 and \$8,771, respectively, representing an increase of 35%. For the year ended December 31, 2005, projected personnel costs are approximately \$13,582, for an increase over 2004 spending of \$1,690, or 14%. Personnel costs include wages, employee benefits, and corporate payroll tax liabilities.

*2005 Use of Administrative Resources by Support Programs
(Unaudited · in thousands)*



The chart above displays the use of all administrative resources for 2005 in terms of support and mechanism usage. These figures represent a 4% increase in the administrative resources used by the Schools and Libraries support mechanism, and a 2% decrease in administrative resources used by the High Cost support mechanism. Percentages of administrative costs used by the Low Income and Rural Health Care support mechanisms remained relatively unchanged from 2004.

outreach and education to reduce problems typically identified during beneficiary audits; full transition of the FCC Form 499 data collection function in-house; implementation of major new Information Technology initiatives, including the requirements analysis associated with a financial systems redesign to support governmental accounting, enterprise resource planning, development of a service provider/contributor portal, and various other projects to ensure systems stability and security; and procurement of additional office space to house additional staff.

Lastly, contractual expenses have seen a modest increase over the past three years. For the years ended December 31, 2004 and 2003, contractual expenses were \$44,306, and \$41,356, respectively, for an increase of \$2,950, or 7%. During 2005, contractual expenses increased to an estimated \$46,233, for an increase of \$1,927, or 4%. Contractual expenses include direct program administration fees and contract changes to those administration fees.

The overall purpose of the increased staffing and ancillary costs noted above is to ensure that USAC is able to continually improve its efficiency and effectiveness as administrator of the USF and the Support Programs. USAC understands that the resources at its disposal belong to the USF and its recipients. We are faithful to the purpose for which those resources are to be used, and strive to manage them in a manner that brings maximum benefit to all stakeholders.

Overall general and administrative expenses increased from \$8,335 for the year ended December 31, 2003 to \$10,622 for the year ended December 31, 2004, for an increase of \$2,287, or 27%. For the year ended December 31, 2005, projected general and administrative expenses are estimated to be approximately \$24,554, for an increase over 2004 spending of \$13,932, or 131%. The increase from 2004 to 2005 is due in part to increased staffing and systems requirements associated with implementing an FCC order requiring USAC to implement governmental accounting for the USF; creation of an External Relations Division to implement a Board directive to improve

MANAGEMENT DISCUSSION AND ANALYSIS
 UNAUDITED STATEMENT OF FINANCIAL POSITION · DECEMBER 31, 2005
(in thousands)

	2005
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 12,882
Accounts receivable	82
Prepaid expenses	185
	<u>13,149</u>
Assets held for Federal USF	4,529,567
TOTAL CURRENT ASSETS	4,542,716
Fixed Assets, less accumulated depreciation and amortization of \$4,248	3,579
TOTAL OTHER ASSETS	<u>142</u>
TOTAL ASSETS	\$ 4,546,437
LIABILITIES AND UNRESTRICTED NET ASSETS	
Current Liabilities:	
Accounts payable and accrued expenses	2,488
NECA billing payable	63
Payable to Federal Universal Service Fund (USF)	14,319
Liabilities related to assets held for Federal USF	4,529,567
TOTAL CURRENT LIABILITIES	4,546,437
Commitments and Contingencies	—
Unrestricted Net Assets	—
Total Liabilities & Unrestricted Net Assets	\$ 4,546,437

UNAUDITED STATEMENT OF OPERATIONS AND CHANGE IN UNRESTRICTED NET ASSETS
 YEAR ENDED DECEMBER 31, 2005 · *(in thousands)*

REVENUE	
Contract Revenue	\$ <u>85,359</u>
Total Revenue	85,359
OPERATING EXPENSES:	
Contractual expenses	46,233
Personnel and related expenses	13,582
General and administrative	24,554
Depreciation and amortization	990
	<u>85,359</u>
Total Operating Expenses	85,359
NET INCOME	—
UNRESTRICTED NET ASSETS - Beginning of year	—
UNRESTRICTED NET ASSETS - End of year	\$ —

MANAGEMENT DISCUSSION AND ANALYSIS
UNAUDITED STATEMENT OF CASH FLOWS · YEAR ENDED DECEMBER 31, 2005
(in thousands)

	2005
Cash Flows from Operating Activities:	
Cash received from contributors	\$ 7,057,723
Interest received	112,562
Cash paid to service providers	(6,453,469)
Cash paid for administrative costs	(89,591)
Less: Net cash provided by Federal USF	<u>(622,162)</u>
Net cash provided by operating activities	5,063
Cash Flows from Investing Activities:	
Redemption of investments	8,470,909
Purchase of investments	(10,766,583)
Cash paid for fixed assets	(1,804)
Less: Net cash used for Federal USF	<u>2,295,675</u>
Net cash used for investing activities	(1,804)
Increase in Cash and Cash Equivalents	3,259
Cash and Cash Equivalents - Beginning of year	<u>9,623</u>
Cash and Cash Equivalents - End of year	\$ 12,882
Reconciliation of Net Cash from Operating Activities:	
Net income	\$ —
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	990
Changes in operating assets and liabilities:	
Decrease in prepaid expenses and other current assets	(30)
Increase in accounts receivable	(82)
Increase in assets held for Federal USF	(630,455)
Increase in payable to Federal USF	9,471
Decrease in accounts payable and accrued expenses	(5,286)
Increase in liabilities related to assets held for Federal USF	630,455
Net Cash provided by Operating Activities	\$ 5,063

MANAGEMENT DISCUSSION AND ANALYSIS
UNAUDITED COMBINING STATEMENT OF ASSETS AND LIABILITIES
APPLICABLE TO FEDERAL USF · DECEMBER 31, 2005 · (in thousands)

	<i>Schools & Libraries</i>	<i>High Cost</i>	<i>Low Income</i>	<i>Rural Health Care</i>	<i>Total USF</i>
ASSETS:					
Restricted cash and cash equivalents	\$ 1,145,163	\$ 370,706	\$ 97,602	\$ 34,688	\$1,648,159
Investments - long term	2,319,905	—	—	—	2,319,905
Receivables	291,153	382,004	86,005	22,645	781,807
Allowance for doubtful accounts	(126,599)	(88,710)	(20,992)	(601)	(236,902)
Interest receivable	2,279	—	—	—	2,279
Receivable from USAC	(3,529)	16,533	2,294	(979)	14,319
Total Assets	\$ 3,628,372	\$ 680,533	\$ 164,909	\$ 55,753	\$ 4,529,567
LIABILITIES:					
Payable to service providers	\$ (7,016)	\$ 48,123	\$ 9,355	\$ 128	\$ 50,590
Payable to contributors	5,358	8,984	2,044	111	16,497
Accrued liabilities	—	330,424	66,334	—	396,758
Total Liabilities	\$ (1,658)	\$ 387,531	\$ 77,733	\$ 239	\$ 463,845

MANAGEMENT DISCUSSION AND ANALYSIS
UNAUDITED COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES APPLICABLE TO FEDERAL USF · YEAR ENDED DECEMBER 31, 2005
(in thousands)

	<i>Schools & Libraries</i>	<i>High Cost</i>	<i>Low Income</i>	<i>Rural Health Care</i>	<i>Total USF</i>
Additions:					
Amounts billed to contributors	\$ 2,239,726	\$ 3,971,636	\$ 835,452	\$ 49,713	\$7,096,527
Interest income	97,890	9,854	2,164	940	110,848
Total additions	2,337,616	3,981,490	837,616	50,653	7,207,375
Deductions:					
Amount paid and due to service providers	1,838,428	3,826,159	809,530	27,188	6,501,305
Allowance for doubtful accounts	27,281	(4,872)	(1,886)	(144)	20,379
Unrealized/realized gain (loss)	2,487	—	—	—	2,487
Operating expenses	61,396	16,164	4,376	3,246	85,182
Total deductions	1,929,592	3,837,451	812,020	30,290	6,609,353
Change in Assets and Liabilities	\$ 408,024	\$ 144,039	\$ 25,596	\$ 20,363	\$ 598,022

MANAGEMENT DISCUSSION AND ANALYSIS
UNAUDITED COMBINING STATEMENT OF CASH FLOWS APPLICABLE TO FEDERAL USF
YEAR ENDED DECEMBER 31, 2005 · (in thousands)

	<i>Schools & Libraries</i>	<i>High Cost</i>	<i>Low Income</i>	<i>Rural Health Care</i>	<i>Total USF</i>
Cash Flows from Operating Activities:					
Cash received from contributors	\$ 2,190,135	\$ 3,981,075	\$ 850,548	\$ 35,965	\$ 7,057,723
Interest received	100,469	9,139	2,050	904	112,562
Cash paid to service providers	(1,857,720)	(3,767,170)	(801,453)	(27,126)	(6,453,469)
Cash paid for administrative costs	(67,363)	(19,881)	(3,880)	(3,530)	(94,654)
Net cash provided by (used for) operating activities	365,521	203,163	47,265	6,213	622,162
Cash Flows from Investing Activities:					
Redemption of investments	8,470,909	—	—	—	8,470,909
Purchase of investments	(10,766,583)	—	—	—	(10,766,583)
Net cash used for (provided by) investing activities	(2,295,674)	—	—	—	(2,295,674)
Increase (Decrease) in Cash and Cash Equivalents	(1,930,153)	203,163	47,265	6,213	(1,673,512)
Cash and Cash Equivalents -Beginning of year	3,075,316	167,543	50,337	28,475	3,321,671
Cash and Cash Equivalents -End of year	\$ 1,145,163	\$ 370,706	\$ 97,602	\$ 34,688	\$ 1,648,159



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Universal Service Administrative Company

We have audited the accompanying statements of financial position of the Universal Service Administrative Company (a Delaware Corporation) (the "Company") as of December 31, 2004 and 2003, and the related statements of operations and change in unrestricted net assets and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 the Company as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Company taken as a whole. The Combining Statements of Assets and Liabilities Applicable to Federal USF, the Combining Statements of Changes in Assets and Liabilities Applicable to Federal USF and the Combining Statements of Cash Flows Applicable to the Federal USF are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

September 21, 2005

Member of
Deloitte Touche Tohmatsu

STATEMENTS OF FINANCIAL POSITION · DECEMBER 31, 2004 AND 2003
(in thousands)

ASSETS	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 9,623	\$ 2,886
Interest receivable	—	6
Prepaid expenses and other current assets	101	739
Assets held for Federal USF (Note 3)	<u>3,899,112</u>	<u>3,491,094</u>
Total current assets	3,908,836	3,494,725
FIXED ASSETS, less accumulated depreciation and amortization of \$3,276 and \$894, respectively (Note 2)	2,765	2,009
OTHER ASSETS	<u>196</u>	<u>80</u>
TOTAL ASSETS	<u>3,911,797</u>	<u>3,496,814</u>
 LIABILITIES AND UNRESTRICTED NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses (Note 2)	\$ 7,838	\$ 2,938
Payable to Federal Universal Service Fund (Note 2)	4,847	2,782
Liabilities related to assets held for Federal USF (Note 3)	<u>3,899,112</u>	<u>3,491,094</u>
Total current liabilities	3,911,797	3,496,814
COMMITMENTS AND CONTINGENCIES (Note 6)		
UNRESTRICTED NET ASSETS	<u>—</u>	<u>—</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u>\$ 3,911,797</u>	<u>\$ 3,496,814</u>

See notes to financial statements.

STATEMENTS OF OPERATIONS AND CHANGE IN UNRESTRICTED NET ASSETS
 YEARS ENDED DECEMBER 31, 2004 AND 2003
(in thousands)

	2004	2003
REVENUE—Contract revenue	\$ <u>67,349</u>	\$ <u>58,791</u>
OPERATING EXPENSES:		
Contractual expenses (Notes 1 and 6)	44,306	41,356
Personnel and related expenses	11,892	8,771
General and administrative	10,622	8,335
Depreciation and amortization	<u>529</u>	<u>329</u>
Total operating expenses	<u>67,349</u>	<u>58,791</u>
NET INCOME	—	—
UNRESTRICTED NET ASSETS—Beginning of year	—	—
UNRESTRICTED NET ASSETS—End of year	<u>\$ —</u>	<u>\$ —</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS · YEARS ENDED DECEMBER 31, 2004 AND 2003
(in thousands)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contributors	\$ 6,110,562	\$ 5,889,298
Interest received	44,135	26,063
Cash paid to service providers	(5,592,517)	(5,358,946)
Cash paid for administrative costs	(61,392)	(59,928)
Less: Net cash provided by Federal USF	<u>(492,766)</u>	<u>(492,361)</u>
Net cash provided by operating activities	<u>8,022</u>	<u>4,126</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption of investments	1,368,724	320,538
Purchase of investments	(1,048,494)	(389,855)
Cash paid for fixed assets	(1,285)	(1,754)
Less: Net cash used for Federal USF	<u>(320,230)</u>	<u>69,317</u>
Net cash used for investing activities	<u>(1,285)</u>	<u>(1,754)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	6,737	2,372
CASH AND CASH EQUIVALENTS—Beginning of year	<u>2,886</u>	<u>514</u>
CASH AND CASH EQUIVALENTS—End of year	\$ <u>9,623</u>	\$ <u>2,886</u>
RECONCILIATION OF NET CASH FROM OPERATING ACTIVITIES:		
Net income	\$ —	\$ —
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	529	329
Changes in operating assets and liabilities:		
Decrease in interest receivable	6	1
Decrease (increase) in prepaid expenses and other current assets	522	(230)
Increase in assets held for Federal USF	(408,018)	(609,478)
Increase in payable to Federal USF	2,066	5,262
Increase (decrease) in accounts payable and accrued expenses	4,899	(1,236)
Increase in liabilities related to assets held for Federal USF	<u>408,018</u>	<u>609,478</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>8,022</u>	\$ <u>4,126</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS · YEARS ENDED DECEMBER 31, 2004 AND 2003
(in thousands)**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 Federal Universal Service Fund (“USF”). USAC’s Board of Directors consists of independent directors representing a cross-section of stakeholders in the Federal USF.

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 “Support Mechanisms,” established pursuant to Section 254 of the Communications Act of 1934, as amended.

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

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

Funds collected from contributors by USAC are restricted as to their intended use related to the Support Mechanisms discussed above. Accordingly, such funds have been reflected as assets held for the Federal USF and liabilities related to assets held for the Federal USF in the accompanying statements of financial position. Available funds are maintained and invested by USAC.

NECA performs certain administrative services for USAC under contract whereby NECA is compensated by USAC in accordance with NECA’s Cost Accounting and Procedures Manual. NECA performed certain functions pursuant to 47 CFR Part 36 and FCC Form 499 data collections. Effective July 1, 2002, NECA entered into a fixed price contract with USAC for services performed for the Schools and Libraries and Rural Health Care Support Mechanisms. Effective January 1, 2003, that contract was assigned to NECA Services, Inc. (NECA Services). For the years ended December 31, 2004 and 2003, the expenses recognized for services rendered by NECA were \$701 and \$1,817, respectively. For the years ended December 31, 2004 and 2003, the expenses recognized for services rendered by NECA Services were \$36,422 and \$34,106, respectively. These expenses were included in the contractual expenses in the accompanying statements of operations.

At December 31, 2004 and 2003, the amounts due to NECA and NECA Services related to these services were \$3,661 and \$731, respectively, and are included in accounts payable and accrued expenses in the statements of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES

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

NOTES TO FINANCIAL STATEMENTS · YEARS ENDED DECEMBER 31, 2004 AND 2003
(in thousands)

The allowance for doubtful accounts represents a reserve estimate for amounts billed to contributors that may be uncollectible. The allowance includes specific reserves for identified bankruptcies, identified inactive contributors, delinquent amounts that are referred to the FCC for enforcement and a general reserve based on management's assessment of the recoverability of accounts receivable. Management periodically reviews such estimates and it is reasonably possible that management's assessment of recoverability may change based on actual results.

Concentration of Credit Risk—Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, cash equivalents, short-term and long-term investments and receivables from contributors. The Company places its cash, cash equivalents, short-term and long-term investments with high-credit, quality institutions and limits the amount of credit exposure from any one institution. The Company's accounts receivable arise from amounts billed to contributors and recovery of funds from service providers and beneficiaries but unpaid. The Company performs ongoing evaluations of the recoverability of the receivables and provides allowances for amounts that may be uncollectible. In addition, the Company has improved enforcement by referring delinquent obligations to the FCC.

Cash and Cash Equivalents—USAC considers all highly liquid securities, purchased with an original maturity of three months or less, to be cash equivalents.

Investments—USAC considers all securities purchased with an original maturity greater than three months but less than or equal to one year to be short-term investments. Short-term investments consists primarily of United States Treasury and agency securities with readily determinable fair values all of which were classified as held-to-maturity. USAC considers all securities purchased with an original maturity greater than one year to be long-term investments. Long-term investments consisted primarily of United States Treasury debt securities with readily determinable fair values all of which are classified as held-to-maturity. At December 31, 2003, the Company had \$344,459 of short-term investments. At December 31, 2004, the Company had \$24,230 of long-term investments. At December 31, 2004, there were no short-term investments. At December 31, 2003, there were no long-term investments. The Company accounts for its investments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, a not for profit organization reports investments in debt and equity securities at fair market value.

Fixed Assets—Fixed assets consist of furniture, equipment, leasehold improvements and software and are carried at cost. Depreciation of furniture and equipment is calculated on a straight-line basis over the five to seven year estimated useful lives of those assets. Amortization of leasehold improvements is calculated on a straight-line basis over the remaining period of the respective leases or estimated useful lives of the improvements, whichever is less. Amortization of software is calculated on a straight-line basis over the three year estimated useful lives of those assets. Maintenance and repairs are expensed to operations as incurred.

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

Payable to Federal USF—Payable to the USF presented on the USAC statements of financial position consists of amounts due to the Federal USF for net assets available to satisfy obligations in excess of accounts payable and accrued expenses.

Contract Revenue—USAC recognizes contract revenue when services are rendered. Contract revenues are equal to the cost of providing administrative support to the Support Mechanisms.

Statements of Cash Flows—The statements of cash flows include all cash flow activity relating to USAC and the Support Mechanisms.

NOTES TO FINANCIAL STATEMENTS · YEARS ENDED DECEMBER 31, 2004 AND 2003
(in thousands)

3. ASSETS HELD FOR FEDERAL USF AND LIABILITIES RELATED TO ASSETS HELD FOR FEDERAL USF

In connection with USAC's administration of the Universal Service Support Mechanisms (Note 1), USAC collects monies and makes disbursements between various telecommunications providers, as specified by FCC regulations, orders, and directives. The following summary financial information applicable to Federal USF is provided for additional information.

SUMMARY STATEMENTS OF ASSETS AND LIABILITIES APPLICABLE TO FEDERAL USF	DECEMBER 31	
	2004	2003
ASSETS:		
Restricted cash and cash equivalents	\$ 3,321,671	\$ 2,508,675
Investments	24,230	344,459
Receivables	758,407	770,939
Allowance for doubtful accounts	(216,523)	(139,902)
Interest receivable	6,480	4,141
Receivable from USAC	4,847	2,782
TOTAL ASSETS	\$ 3,899,112	\$ 3,491,094
LIABILITIES:		
Payable to service providers	\$ 28,484	\$ 18,589
Payable to contributors	31,901	36,905
Accrued liabilities	371,027	323,461
TOTAL LIABILITIES	\$ 431,412	\$ 378,955

SUMMARY STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES APPLICABLE TO FEDERAL USF	FOR THE YEARS ENDED	
	2004	2003
ADDITIONS:		
Amounts billed to contributors	\$ 6,034,356	\$ 6,074,145
Interest income	50,764	31,839
Total additions	6,085,120	6,105,984
DEDUCTIONS:		
Amount paid and due to service providers	5,618,221	5,408,693
Allowance for doubtful accounts	39,702	12,140
Operating expenses	67,349	58,791
Unrealized/realized losses on investments	4,286	5,279
Total deductions	5,729,558	5,484,903
CHANGE IN ASSETS AND LIABILITIES	\$ 355,562	\$ 621,081

NOTES TO FINANCIAL STATEMENTS · YEARS ENDED DECEMBER 31, 2004 AND 2003
(in thousands)

SUMMARY STATEMENTS OF CASH FLOWS APPLICABLE TO USF	FOR THE YEARS ENDED	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contributors	\$ 6,110,562	\$ 5,889,298
Interest received	44,135	25,944
Cash paid to service providers	(5,592,517)	(5,358,946)
Cash paid for administrative expenses	(69,414)	(63,935)
Net cash provided by operating activities	492,766	492,361
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption of investments	1,368,724	320,538
Purchase of investments	(1,048,494)	(389,855)
Net cash provided by (used for) investing activities	320,230	(69,317)
INCREASE IN CASH AND CASH EQUIVALENTS	812,996	423,044
CASH AND CASH EQUIVALENTS:		
Beginning of year	2,508,675	2,085,631
End of year	\$ 3,321,671	\$ 2,508,675

Significant Accounting Policies Applicable to USF—

Amounts Billed to Contributors—Contributors to the USF are permitted to revise their revenue data, which may result in adjustments to amounts previously billed. Billing adjustments are calculated upon receipt of the revised revenue data and recorded when billed or credited to the contributor. The Company accrues known and unbilled adjustments resulting from revised revenue data received from the contributors before year-end.

Payable to Service Providers—Payable to service providers reflects amounts that have been approved for payment by the various Support Mechanisms but have not yet been disbursed. The Company recognizes the obligation upon review and approval of the submitted payment requests as specified in the Support Mechanism rules.

Payable to Contributors—Payable to contributors represents contributors' credit balances primarily due to overpayments and other adjustments.

Amounts Paid and Due to Service Providers—Amounts paid and due to service providers are presented as a gross amount. During 2004 and 2003, service providers receiving support from Schools and Libraries Support Mechanism had the option to net their support due from the Schools and Libraries Support Mechanism against their payments to the USF. It is mandatory that providers receiving support from the Rural Health Care Support Mechanism net their support due against their payments to the USF. There is no provision that enables providers to net their support due from High Cost and Low Income Support Mechanisms against their contributions to the USF.

Amounts paid and due to service providers through certain Support Mechanisms are based on estimates and provider data that may be subject to subsequent revisions. These revisions may result in adjustments to amounts previously billed or disbursed. In accordance with FCC Rules and Regulations, the Company records these adjustments in the period they are determined. Management does not believe that the impact of these adjustments is material to the financial statements presented.

NOTES TO FINANCIAL STATEMENTS · YEARS ENDED DECEMBER 31, 2004 AND 2003
(in thousands)

4. INCOME TAXES

USAC is a not-for-profit organization subject to income taxes related to permanent and temporary differences such as meals and entertainment expense and financial accounting versus tax depreciation. Income taxes for 2004 and 2003 are not material and are included as a component of administrative costs.

5. INTRAPROGRAM FUND TRANSFERS

On March 5, 2004, the FCC issued a Public Notice in Docket No. 96-45 directing USAC to apply \$200,000 of unused Schools and Libraries Support Mechanism funds to the second quarter Schools and Libraries demand in order to stabilize the USF contribution factor. On June 7, 2004, the FCC issued a Public Notice in Docket No. 96-45 directing USAC to apply an additional \$200,000 of unused Schools and Libraries Support Mechanism funds to the third quarter. On September 16, 2004, the FCC released a Public Notice in Docket No. 96-45 directing USAC to apply an additional \$150,000 of unused Schools and Libraries Support Mechanism funds to the fourth quarter. In total, the FCC directed USAC to reduce Schools and Libraries Support Mechanism collections amount by \$550,000.

6. COMMITMENTS AND CONTINGENCIES

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

Fixed Contract Commitments

LaSalle Bank Agreement—On May 1, 2001, USAC entered into an agreement with LaSalle Bank (“LaSalle Agreement”). The LaSalle Agreement is a five-year contract, which runs from July 1, 2001 to June 30, 2006. Under the terms of the LaSalle Agreement, LaSalle provides banking and investment management services for a fixed annual contractual amount that may be satisfied by fees derived by LaSalle from the investment of a portion of the custodial assets. LaSalle has also agreed to share with USAC the fees it earns for managing the investments after the annual fee has been satisfied. In accordance with the LaSalle Agreement USAC accrued fees of \$2,696 and \$2,756 for the years ended December 31, 2004 and 2003, respectively, which is reflected as a reduction in operating expenses in the accompanying financial statements. The fees earned are dependent on the amounts invested and vary over the term of the contract.

The future contractual required payments per year under the LaSalle Agreement are as follows:

2005	\$ 998
2006	1,057
Total	\$ 2,055

NOTES TO FINANCIAL STATEMENTS · YEARS ENDED DECEMBER 31, 2004 AND 2003
(in thousands)

NECA Services Agreement—On May 1, 2000, USAC entered into an agreement with NECA (“NECA Agreement”). The NECA Agreement was a three-year contract, which ran from July 1, 2000 to June 30, 2003. Effective July 1, 2002, the NECA Agreement was amended and extended to June 30, 2005, with renewal options through June 30, 2008. Effective January 1, 2003, the contract was assigned to NECA Services (“NECA Services Agreement”). Effective March 29, 2005, USAC executed a partial exercise of the contract renewal option by extending the NECA Services Agreement through December 31, 2006. Under the terms of the agreement, NECA and NECA Services provides programmatic support service to the Schools and Libraries and Rural Health Care Support Mechanisms. The future contractual required payments per year through December 31, 2006 under the NECA Services Agreement are as follows:

	<i>Schools and Libraries</i>	<i>Rural Health Care</i>
2005	\$ 33,832	\$ 2,745
2006	32,331	2,559
TOTAL	\$ 66,163	\$ 5,304

Telcordia Agreement—On September 2, 2003, USAC entered into an agreement with Telcordia Technologies, Inc. (“Telcordia Agreement”). The Telcordia Agreement is a five-year contract with a four-month transition phase that runs from September 2, 2003 to December 31, 2008, with a renewal option for one year. Under the terms of the agreement, Telcordia provides programmatic support services to the High Cost and Low Income Support Mechanisms. The future contractual required payments per year through December 31, 2008 under the Telcordia Agreement are as follows:

2005	\$ 4,136
2006	4,000
2007	3,888
2008	3,975
TOTAL	\$ 15,999

Lease Commitments—USAC leases its office space under a single operating lease agreement expiring on November 30, 2013. At December 31, 2004, the future minimal rental payments under these leases are as follows:

2005	\$ 1,226
2006	1,489
2007	1,523
2008	1,562
2009	1,615
Thereafter	10,094
TOTAL	\$ 17,509

Rent expense under operating leases was \$1,126 and \$716 for the years ended December 31, 2004 and 2003, respectively.

Legal Disputes—The Company is involved in various legal proceedings and claims incidental to the normal conduct of its business. Among other matters, in April 2004 the Company was named as a defendant in a complaint in the United States Bankruptcy Court for the Southern District of New York seeking to avoid and recover from USAC alleged preferential pre-petition payments totaling \$11,300 in universal service contributions. USAC believes the allegations in the complaint are without merit and is defending this matter vigorously.

NOTES TO FINANCIAL STATEMENTS · YEARS ENDED DECEMBER 31, 2004 AND 2003
(in thousands)

In September 2004, the Company was named as a defendant in a complaint filed in the United States Bankruptcy Court in Delaware seeking to avoid and recover an alleged preferential payment of \$600. A trial date has been set for October 2005. USAC believes the allegations in the complaint are without merit and is defending this matter vigorously.

In 2002, the Company was named as a defendant in a complaint filed in the United States Bankruptcy Court for the Central District of California seeking to recover an alleged preferential payment of \$500. On December 22, 2002, the court granted summary judgment in the Company's favor, disposing of the action. The Creditors' Committee appealed and, in September 2003, the Bankruptcy Appellate Panel of the Ninth Circuit reversed the Bankruptcy Court's decision. The Company has appealed the Ninth Circuit and briefs have been filed and oral arguments have been heard; however, a decision from the Court has not been issued.

In June 2004, the Company was listed as a "defendant" on the docket of a filing with the United States Bankruptcy Court for the Southern District of New York, however, no complaint was filed in that proceeding or any proceeding prior to that date against the Company. The amount potentially in controversy is approximately \$300. On or about June 29, 2004, the Debtors filed a motion seeking to temporarily stay all activity in the pending avoidance actions and listed USAC as a defendant. By agreement of the parties, USAC has been removed from the list of defendants, with the parties reserving their respective rights regarding the viability of any potential action against USAC. The Company believes any potential allegations in this matter are without merit. USAC will continue to monitor this matter and will vigorously defend any complaint that may be properly filed and served.

In February 2004, the Company was named as a defendant in a suit filed in the United States Bankruptcy Court for the Eastern District of North Carolina by the Chapter 7 trustee of a bankrupt service provider to the Schools and Libraries program seeking \$100 in service provider payments allegedly due. The parties met for pre-trial mediation in September 2005 and entered into a stipulated agreement that resolves the matter. The agreement will become effective ten days after Court approval. In the event the stipulation is not approved, USAC believes the allegations in the complaint are without merit and, in the event the stipulation is not approved, will defend this matter vigorously.

In 2003, the Company was named as a defendant in a third-party complaint in Minnesota state court alleging that the Company was negligent in administering the funding process for the Schools and Libraries program. In the initial complaint, plaintiff alleged that it would have received approximately \$1,600 in funding support. In July 2004, the Court granted the Company's motion for summary judgment and dismissed the third-party complaint against the Company on the grounds that the complaint was preempted by federal law. In June 2005, the Court granted summary judgment on the underlying complaint in favor of defendant. The plaintiff filed its notice of appeal in June 2005 and in July 2005 the defendant filed a notice of review seeking review of the Court's summary judgment in favor of the Company. The Company believes that this appeal is without merit and will continue to defend the matter vigorously.

The Company believes the allegations in the complaints are without merit and is defending these matters vigorously. 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.

7. RETIREMENT PLANS

USAC has a 401(k) Retirement Savings Plan covering all USAC regular employees. The plan is both contributory and noncontributory and all contributions are subject to certain limitations as prescribed by the plan document and government regulations. Employees are immediately vested in the employer contribution, which is funded on a current basis. Employer contributions charged to operations was \$930 and \$663 during 2004 and 2003, respectively.

COMBINING STATEMENTS OF ASSETS AND LIABILITIES APPLICABLE TO FEDERAL USF
DECEMBER 31, 2004 AND 2003 · (in thousands)

2004					
	<u>Schools & Libraries</u>	<u>High Cost</u>	<u>Low Income</u>	<u>Rural Health Care</u>	<u>Total USF</u>
ASSETS:					
Restricted cash and cash equivalents	\$ 3,075,316	\$ 167,543	\$ 50,337	\$ 28,475	\$ 3,321,671
Investments	24,230	—	—	—	24,230
Receivables	244,771	400,945	103,702	8,989	758,407
Allowance for doubtful accounts	(99,319)	(93,581)	(22,878)	(745)	(216,523)
Interest receivable	7,345	(715)	(114)	(36)	6,480
Receivable from USAC	(9,496)	12,816	2,790	(1,263)	4,847
TOTAL ASSETS	\$ 3,242,847	\$ 487,008	\$ 133,837	\$ 35,420	\$ 3,899,112
LIABILITIES:					
Payable to service providers	\$ 12,277	\$ 12,919	\$ 3,222	\$ 66	\$ 28,484
Payable to contributors	8,564	18,488	4,646	203	31,901
Accrued liabilities	—	306,638	64,389	—	371,027
TOTAL LIABILITIES	\$ 20,841	\$ 338,045	\$ 72,257	\$ 269	\$ 431,412

2003					
	<u>Schools & Libraries</u>	<u>High Cost</u>	<u>Low Income</u>	<u>Rural Health Care</u>	<u>Total USF</u>
ASSETS:					
Restricted cash and cash equivalents	\$ 2,352,503	\$ 89,756	\$ 50,166	\$ 16,250	\$ 2,508,675
Investments	344,459	—	—	—	344,459
Receivables	275,937	400,863	89,444	4,695	770,939
Allowance for doubtful accounts	(52,767)	(70,105)	(16,394)	(636)	(139,902)
Interest receivable	4,075	17	41	8	4,141
Receivable from USAC	2,053	99	579	51	2,782
TOTAL ASSETS	\$ 2,926,260	\$ 420,630	\$ 123,836	\$ 20,368	\$ 3,491,094
LIABILITIES:					
Payable to service providers	\$ 9,434	\$ 8,045	\$ 1,091	\$ 19	\$ 18,589
Payable to contributors	12,945	19,453	4,349	158	36,905
Accrued liabilities	—	268,773	54,688	—	323,461
TOTAL LIABILITIES	\$ 22,379	\$ 296,271	\$ 60,129	\$ 177	\$ 378,955

Note—This schedule reflects the assets and liabilities applicable to Federal USF at December 31, 2004 and 2003 for each of the Support Mechanisms.

COMBINING STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
 APPLICABLE TO FEDERAL USF · YEARS ENDED DECEMBER 31, 2004 AND 2003
 (in thousands)

2004

	<i>Schools & Libraries</i>	<i>High Cost</i>	<i>Low Income</i>	<i>Rural Health Care</i>	<i>Total USF</i>
ADDITIONS:					
Amounts billed to contributors	\$ 1,688,435	\$ 3,534,061	\$ 772,376	\$ 39,484	\$ 6,034,356
Interest income	46,489	3,289	765	221	50,764
TOTAL ADDITIONS	1,734,924	3,537,350	773,141	39,705	6,085,120
DEDUCTIONS:					
Amount paid and due to service providers	1,328,918	3,498,025	769,395	21,883	5,618,221
Allowance for doubtful accounts	37,604	791	1,536	(229)	39,702
Operating expenses	45,991	13,930	4,337	3,091	67,349
Unrealized/realized gain or loss	4,286	—	—	—	4,286
TOTAL DEDUCTIONS	1,416,799	3,512,746	775,268	24,745	5,729,558
INTERPROGRAM TRANSFER	—	—	—	—	—
CHANGE IN ASSETS AND LIABILITIES	\$ 318,125	\$ 24,604	\$ (2,127)	\$ 14,960	\$ 355,562

2003

	<i>Schools & Libraries</i>	<i>High Cost</i>	<i>Low Income</i>	<i>Rural Health Care</i>	<i>Total USF</i>
ADDITIONS:					
Amounts billed to contributors	\$ 2,143,630	\$ 3,204,654	\$ 697,528	\$ 28,333	\$ 6,074,145
Interest income	30,615	546	549	129	31,839
TOTAL ADDITIONS	2,174,245	3,205,200	698,077	28,462	6,105,984
DEDUCTIONS:					
Amount paid and due to service providers	1,409,937	3,265,140	711,733	21,883	5,408,693
Allowance for doubtful accounts	4,155	8,190	656	(861)	12,140
Operating expenses	40,945	12,118	3,175	2,553	58,791
Unrealized/realized gain or loss	5,279	—	—	—	5,279
TOTAL DEDUCTIONS	1,460,316	3,285,448	715,564	23,575	5,484,903
INTERPROGRAM TRANSFER	(159,827)	128,757	30,538	532	—
CHANGE IN ASSETS AND LIABILITIES	\$ 554,102	\$ 48,509	\$ 13,051	\$ 5,419	\$ 621,081

Note—This schedule reflects the changes in assets and liabilities applicable to the Federal USF for the years ended December 31, 2004 and 2003 for each of the Support Mechanisms.

COMBINING STATEMENTS OF CASH FLOWS APPLICABLE TO FEDERAL USF
 DECEMBER 31, 2004 AND 2003 · (in thousands)

2004

	<i>Schools & Libraries</i>	<i>High Cost</i>	<i>Low Income</i>	<i>Rural Health Care</i>	<i>Total USF</i>
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from contributors	\$ 1,756,236	\$ 3,555,407	\$ 763,372	\$ 35,547	\$ 6,110,562
Interest received	38,933	4,020	918	264	44,135
Cash paid to service providers	(1,357,834)	(3,455,286)	(757,561)	(21,836)	(5,592,517)
Cash paid for administrative costs	(34,752)	(26,354)	(6,559)	(1,750)	(69,414)
Interprogram transfers	—	—	—	—	—
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	402,583	77,787	171	12,225	492,766
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investments	1,368,724	—	—	—	1,368,724
Purchase of investments	(1,048,494)	—	—	—	(1,048,494)
NET CASH USED FOR (PROVIDED BY) INVESTING ACTIVITIES	320,230	—	—	—	320,230
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	722,813	77,787	171	12,225	812,996
CASH AND CASH EQUIVALENTS:					
Beginning of year	2,352,503	89,756	50,166	16,250	2,508,675
End of year	\$ 3,075,316	\$ 167,543	\$ 50,337	\$ 28,475	\$ 3,321,671

2003

	<i>Schools & Libraries</i>	<i>High Cost</i>	<i>Low Income</i>	<i>Rural Health Care</i>	<i>Total USF</i>
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from contributors	\$ 2,079,479	\$ 3,106,067	\$ 676,789	\$ 26,963	\$ 5,889,298
Interest received	24,670	587	554	133	25,944
Cash paid to service providers	(1,400,722)	(3,234,823)	(701,808)	(21,593)	(5,358,946)
Cash paid for administrative costs	(45,611)	(12,044)	(3,620)	(2,660)	(63,935)
Interprogram transfers	(159,826)	128,757	30,538	531	—
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	497,990	(11,456)	2,453	3,374	492,361
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investments	320,538	—	—	—	320,538
Purchase of investments	(389,855)	—	—	—	(389,855)
NET CASH USED FOR (PROVIDED BY) INVESTING ACTIVITIES	(69,317)	—	—	—	(69,317)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	428,673	(11,456)	2,453	3,374	423,044
CASH AND CASH EQUIVALENTS:					
Beginning of year	1,923,830	101,212	47,713	12,876	2,085,631
End of year	\$ 2,352,503	\$ 89,756	\$ 50,166	\$ 16,250	\$ 2,508,675

Note—This schedule reflects the cash flows applicable to the Federal USF for the years ended December 31, 2004 and 2003 for each of the Support Mechanisms.

2005 PROGRAM STATISTICS · UNAUDITED
DIFFERENCES BETWEEN DISBURSEMENTS AND COMMITMENTS

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

FUNDING YEAR

For the Rural Health Care and Schools and Libraries programs, a Funding Year (FY) runs from July 1 to June 30 of the following year.

<i>Rural Health Care and Schools and Libraries Program Funding Years</i>	<i>Start Date</i>	<i>End Date</i>
FUNDING YEAR 2003 (FY2003)	JULY 1, 2003	JUNE 30, 2004
FUNDING YEAR 2004 (FY2004)	JULY 1, 2004	JUNE 30, 2005
FUNDING YEAR 2005 (FY2005)	JULY 1, 2005	JUNE 30, 2006

CALENDAR YEAR

The High Cost and Low Income programs disburse funds on a Calendar Year basis. Information in the tables is for Calendar Year 2005.

DISBURSEMENTS*

The tables contain the amount of USF support issued in Calendar Year 2005, which does not reflect certain accounting adjustments. For the Rural Health Care and Schools and Libraries programs, the disbursement information is shown by Funding Year in addition to the total Calendar Year 2005 amount disbursed. For the Rural Health Care and Schools and Libraries programs, disbursement information in the Calendar Year tables may represent multiple Funding Years.

FUNDING COMMITMENTS*

Funding commitments are not disbursements. Funding commitments are issued by the Rural Health Care and Schools and Libraries programs via commitment letters that approve what will be funded through USF support payments for a particular Funding Year. Commitments made in Calendar Year 2005 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 2005 and Funding Year 2005 commitment information. Funding Year 2005 disbursement information is provided for the Schools and Libraries program.

**Note: Numbers may not add perfectly due to rounding.*

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

HIGH COST PROGRAM · DISBURSEMENTS BY COMPONENT, 2005 · UNAUDITED
(in thousands)

State	High Cost Loop	High Cost Model	Interstate Access Support	Interstate Common Line Support	Local Switching Support	Total 2005	Total 1998-12/31/05
Alabama	\$ 19,549	\$ 45,790	\$ 20,214	\$ 17,912	\$ 5,878	\$ 109,343	\$ 659,568
Alaska	54,215	0	0	51,163	14,896	120,274	660,895
American Samoa	654	0	0	1,371	292	2,318	8,355
Arizona	33,230	0	19,353	11,891	10,077	74,550	439,958
Arkansas	70,781	0	17,419	43,782	9,015	140,997	785,483
California	36,843	0	34,362	22,618	5,043	98,866	621,921
Colorado	34,670	0	20,808	19,089	4,710	79,277	507,927
Connecticut	0	0	509	1,016	724	2,249	12,502
Delaware	0	0	259	0	0	259	4,974
District of Columbia	0	0	0	0	0	0	0
Florida	12,464	0	64,278	10,591	4,118	91,450	518,842
Georgia	41,585	0	24,341	31,805	13,963	111,693	764,841
Guam	9,531	0	0	9,635	0	19,165	42,482
Hawaii	12,471	0	2,575	11,650	2,828	29,525	71,163
Idaho	23,116	0	16,101	9,136	6,702	55,055	349,130
Illinois	16,521	0	12,365	24,613	10,008	63,506	348,719
Indiana	9,924	0	23,840	13,294	9,574	56,632	317,627
Iowa	23,408	0	5,938	37,050	23,941	90,336	405,255
Kansas	99,338	0	7,572	53,985	17,790	178,684	784,059
Kentucky	23,662	16,997	18,294	19,387	5,260	83,600	382,190
Louisiana	61,514	0	12,369	30,876	6,483	111,241	678,202
Maine	7,297	2,044	232	12,285	6,953	28,812	221,301
Maryland	357	0	2,428	631	910	4,327	23,411
Massachusetts	252	0	1,889	523	970	3,634	47,392
Michigan	24,718	0	558	19,068	9,230	53,575	341,913
Minnesota	39,389	0	5,115	45,931	22,917	113,352	534,141
Mississippi	27,534	146,627	18,537	12,347	4,206	209,251	1,066,783
Missouri	36,904	0	13,304	27,613	7,326	85,146	592,811
Montana	27,441	19,867	1,313	19,917	8,193	76,731	465,777
Nebraska	17,267	7,085	5,681	14,908	10,950	55,890	270,027
Nevada	6,567	0	10,579	5,873	6,620	29,639	172,102
New Hampshire	668	0	1,825	2,196	4,044	8,732	78,865
New Jersey	0	0	366	66	900	1,332	21,741
New Mexico	23,807	0	9,948	13,838	10,918	58,511	352,795
New York	8,885	0	19,289	8,870	14,788	51,833	400,407
North Carolina	11,896	0	36,959	25,490	5,834	80,179	430,299
North Dakota	21,428	0	836	24,321	16,133	62,718	301,769
Northern Mariana Islands	0	0	346	0	321	668	24,887
Ohio	9,574	0	14,791	9,550	3,839	37,754	227,146
Oklahoma	57,498	0	5,169	41,360	16,161	120,188	675,723
Oregon	22,793	0	20,142	17,353	8,182	68,469	458,412
Pennsylvania	1,930	0	21,142	36,597	5,835	65,504	330,531
Puerto Rico	0	0	0	133,786	0	133,786	977,548
Rhode Island	0	0	44	0	0	44	326
South Carolina	26,996	0	13,276	31,292	4,759	76,322	497,066
South Dakota	32,201	2,455	146	28,274	14,711	77,788	298,055
Tennessee	14,668	0	10,142	22,705	7,170	54,684	343,650
Texas	104,608	0	39,592	66,601	19,215	230,017	1,403,287
Utah	7,495	0	2,531	9,509	4,044	23,579	136,632
Vermont	7,675	10,294	2,418	9,460	5,397	35,244	192,926
Virgin Islands	14,410	0	0	8,208	0	22,618	196,664
Virginia	3,478	0	70,064	7,880	5,891	87,312	441,595
Washington	27,170	0	34,446	24,288	8,483	94,387	560,688
West Virginia	15,579	26,328	19,680	2,213	2,517	66,318	478,531
Wisconsin	39,132	0	369	62,336	28,387	130,225	609,429
Wyoming	15,334	14,353	7,248	11,972	7,692	56,598	314,053
TOTAL	\$ 1,238,425	\$ 291,840	\$ 691,000	\$ 1,178,126	\$ 424,795	\$ 3,824,186	\$ 21,852,775

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

Long Term Support was merged into ICLS in July 2004. 2005 ICLS disbursements may include Long Term Support based on prior-period adjustments.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

 HIGH COST PROGRAM · DISBURSEMENTS BY RURAL/NON-RURAL, 2005 · UNAUDITED
 (in thousands)

<i>State</i>	<i>Total Rural</i>	<i>Total Non-Rural</i>	<i>Total 2005</i>
Alabama	\$ 43,505	\$ 65,838	\$ 109,343
Alaska	104,772	15,502	120,274
American Samoa	2,318	0	2,318
Arizona	58,227	16,324	74,550
Arkansas	113,504	27,493	140,997
California	66,930	31,936	98,866
Colorado	56,232	23,045	79,277
Connecticut	1,739	509	2,249
Delaware	0	259	259
District of Columbia	0	0	0
Florida	45,655	45,795	91,450
Georgia	87,325	24,368	111,693
Guam	15,754	3,411	19,165
Hawaii	21,595	7,929	29,525
Idaho	55,055	0	55,055
Illinois	52,921	10,585	63,506
Indiana	35,173	21,459	56,632
Iowa	72,705	17,631	90,336
Kansas	161,628	17,056	178,684
Kentucky	46,849	36,751	83,600
Louisiana	91,278	19,963	111,241
Maine	24,856	3,956	28,812
Maryland	1,898	2,428	4,327
Massachusetts	1,746	1,889	3,634
Michigan	49,222	4,353	53,575
Minnesota	99,396	13,956	113,352
Mississippi	41,581	167,669	209,251
Missouri	78,646	6,499	85,146
Montana	55,826	20,905	76,731
Nebraska	44,881	11,008	55,890
Nevada	20,902	8,737	29,639
New Hampshire	6,907	1,825	8,732
New Jersey	1,332	0	1,332
New Mexico	51,258	7,253	58,511
New York	39,878	11,954	51,833
North Carolina	47,488	32,692	80,179
North Dakota	50,866	11,852	62,718
Northern Mariana Islands	621	47	668
Ohio	29,915	7,839	37,754
Oklahoma	113,088	7,101	120,188
Oregon	49,498	18,971	68,469
Pennsylvania	55,623	9,881	65,504
Puerto Rico	0	133,786	133,786
Rhode Island	0	44	44
South Carolina	65,577	10,745	76,322
South Dakota	66,491	11,297	77,788
Tennessee	46,844	7,840	54,684
Texas	204,533	25,484	230,017
Utah	22,130	1,449	23,579
Vermont	20,552	14,692	35,244
Virgin Islands	22,618	0	22,618
Virginia	27,584	59,729	87,312
Washington	55,490	38,897	94,387
West Virginia	29,309	37,008	66,318
Wisconsin	111,862	18,363	130,225
Wyoming	32,343	24,255	56,598
TOTAL	\$2,703,927	\$1,120,259	\$3,824,186

Note: Numbers may not add perfectly due to rounding.

**HIGH COST PROGRAM · DISBURSEMENTS BY INCUMBENT V. COMPETITIVE ETC,
2005 · UNAUDITED (in thousands)**

<i>State</i>	<i>Incumbent ETC</i>	<i>Competitive ETC</i>	<i>Total 2005</i>
Alabama	\$ 97,679	\$ 11,664	\$ 109,343
Alaska	100,628	19,646	120,274
American Samoa	2,318	0	2,318
Arizona	61,805	12,746	74,550
Arkansas	103,476	37,521	140,997
California	98,674	191	98,866
Colorado	72,050	7,227	79,277
Connecticut	2,249	0	2,249
Delaware	259	0	259
District of Columbia	0	0	0
Florida	81,140	10,310	91,450
Georgia	102,638	9,055	111,693
Guam	11,427	7,738	19,165
Hawaii	17,568	11,956	29,525
Idaho	55,055	0	55,055
Illinois	63,505	1	63,506
Indiana	54,481	2,151	56,632
Iowa	55,619	34,717	90,336
Kansas	132,251	46,433	178,684
Kentucky	75,144	8,456	83,600
Louisiana	85,913	25,328	111,241
Maine	24,533	4,279	28,812
Maryland	4,327	0	4,327
Massachusetts	3,634	0	3,634
Michigan	43,744	9,830	53,575
Minnesota	81,420	31,932	113,352
Mississippi	147,106	62,144	209,251
Missouri	85,026	120	85,146
Montana	72,678	4,053	76,731
Nebraska	54,422	1,468	55,890
Nevada	24,451	5,188	29,639
New Hampshire	8,732	0	8,732
New Jersey	1,332	0	1,332
New Mexico	49,491	9,020	58,511
New York	47,160	4,672	51,833
North Carolina	72,921	7,258	80,179
North Dakota	36,413	26,305	62,718
Northern Mariana Islands	437	231	668
Ohio	37,754	0	37,754
Oklahoma	108,602	11,586	120,188
Oregon	64,914	3,554	68,469
Pennsylvania	63,460	2,044	65,504
Puerto Rico	66,047	67,738	133,786
Rhode Island	44	0	44
South Carolina	76,322	0	76,322
South Dakota	54,108	23,679	77,788
Tennessee	53,510	1,174	54,684
Texas	226,231	3,786	230,017
Utah	23,302	278	23,579
Vermont	28,418	6,826	35,244
Virgin Islands	22,618	0	22,618
Virginia	72,049	15,263	87,312
Washington	65,990	28,398	94,387
West Virginia	58,578	7,740	66,318
Wisconsin	90,079	40,146	130,225
Wyoming	41,936	14,662	56,598
TOTAL	\$3,185,670	\$638,516	\$3,824,186

Note: Numbers may not add perfectly due to rounding.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

 LOW INCOME PROGRAM · DISBURSEMENTS BY COMPONENT, 2005 · UNAUDITED
 (in thousands)

State	Lifeline	Link Up	Toll Limitation Service*	Total 2005	Total 1998-12/31/05
Alabama	\$ 3,199	\$ 19	\$ 7	\$ 3,224	\$ 19,420
Alaska	7,007	324	43	7,374	19,542
American Samoa	59	1	0	60	435
Arizona	20,209	239	(139)	20,310	78,575
Arkansas	2,242	125	2	2,369	10,115
California	284,053	17,499	3,116	304,668	2,360,508
Colorado	3,496	10	9	3,514	23,638
Connecticut	5,172	139	4	5,315	40,544
Delaware	270	7	0	277	1,375
District of Columbia	888	5	0	893	8,002
Florida	17,422	310	28	17,761	116,088
Georgia	8,195	204	(117)	8,282	57,887
Guam	422	14	(15)	421	2,118
Hawaii	682	12	1	694	8,252
Idaho	3,884	24	16	3,923	20,261
Illinois	8,190	1,107	(6)	9,291	54,155
Indiana	5,108	606	2	5,716	26,338
Iowa	5,452	491	254	6,198	18,555
Kansas	3,037	66	47	3,149	11,575
Kentucky	7,213	236	88	7,537	37,706
Louisiana	2,361	50	3	2,414	12,166
Maine	8,446	336	14	8,795	66,172
Maryland	481	20	0	502	3,419
Massachusetts	14,258	11	1	14,270	123,968
Michigan	10,974	443	8	11,425	90,860
Minnesota	5,830	118	45	5,993	34,209
Mississippi	3,523	91	4	3,619	17,392
Missouri	5,095	166	136	5,396	22,240
Montana	2,582	32	17	2,631	12,426
Nebraska	2,364	37	5	2,406	12,227
Nevada	3,941	119	14	4,075	21,079
New Hampshire	630	2	0	632	4,172
New Jersey	14,477	49	3	14,530	50,807
New Mexico	10,414	208	33	10,655	43,122
New York	51,644	884	16	52,544	418,088
North Carolina	14,356	117	31	14,504	72,782
North Dakota	3,680	100	24	3,804	15,809
Northern Mariana Islands	74	11	0	85	403
Ohio	34,055	935	31	35,022	172,797
Oklahoma	30,586	1,559	213	32,358	90,340
Oregon	6,636	328	344	7,307	33,276
Pennsylvania	18,060	1,096	0	19,156	74,788
Puerto Rico	12,878	408	0	13,286	46,128
Rhode Island	4,617	4	1	4,622	36,063
South Carolina	2,800	53	16	2,869	18,364
South Dakota	6,745	480	55	7,280	23,374
Tennessee	6,053	79	8	6,141	35,967
Texas	69,814	2,368	148	72,330	332,714
Utah	2,895	24	9	2,927	17,135
Vermont	2,819	19	4	2,842	22,683
Virgin Islands	157	1	0	158	298
Virginia	2,202	53	2	2,257	17,125
Washington	16,912	1,793	1,119	19,823	87,764
West Virginia	694	15	1	710	4,025
Wisconsin	8,138	688	3	8,829	50,499
Wyoming	1,057	188	150	1,395	3,254
TOTAL	\$ 768,445	\$ 34,320	\$ 5,800	\$ 808,565	\$ 5,003,023

* Negative amounts result from over-claimed support and projected amounts exceeding support claims.

Note: Numbers may not add perfectly due to rounding.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

 LOW INCOME PROGRAM · DISBURSEMENTS BY INCUMBENT V. COMPETITIVE ETC,
 2005 · UNAUDITED (*in thousands*)

<i>State</i>	<i>Incumbent ETC</i>	<i>Competitive ETC</i>	<i>Total 2005</i>
Alabama	\$ 3,123	\$ 101	\$ 3,224
Alaska	3,588	3,787	7,374
American Samoa	60	0	60
Arizona	4,516	15,793	20,310
Arkansas	2,369	0	2,369
California	301,622	3,045	304,668
Colorado	3,512	2	3,514
Connecticut	5,315	0	5,315
Delaware	277	0	277
District of Columbia	893	0	893
Florida	17,759	1	17,761
Georgia	8,280	1	8,282
Guam	421	0	421
Hawaii	694	0	694
Idaho	3,805	118	3,923
Illinois	8,613	678	9,291
Indiana	5,716	0	5,716
Iowa	4,895	1,303	6,198
Kansas	2,528	621	3,149
Kentucky	7,425	112	7,537
Louisiana	2,100	313	2,414
Maine	8,793	2	8,795
Maryland	501	0	502
Massachusetts	14,270	0	14,270
Michigan	11,352	74	11,425
Minnesota	5,645	349	5,993
Mississippi	2,985	634	3,619
Missouri	4,366	1,031	5,396
Montana	2,605	26	2,631
Nebraska	2,056	350	2,406
Nevada	4,068	7	4,075
New Hampshire	632	0	632
New Jersey	14,530	0	14,530
New Mexico	6,838	3,817	10,655
New York	46,943	5,601	52,544
North Carolina	14,504	0	14,504
North Dakota	2,450	1,354	3,804
Northern Mariana Islands	85	0	85
Ohio	35,022	0	35,022
Oklahoma	18,609	13,750	32,358
Oregon	5,905	1,402	7,307
Pennsylvania	19,118	38	19,156
Puerto Rico	13,255	31	13,286
Rhode Island	4,455	167	4,622
South Carolina	2,869	0	2,869
South Dakota	2,232	5,048	7,280
Tennessee	6,085	55	6,141
Texas	68,859	3,470	72,330
Utah	2,927	0	2,927
Vermont	2,792	50	2,842
Virgin Islands	158	0	158
Virginia	2,214	42	2,257
Washington	12,739	7,084	19,823
West Virginia	680	30	710
Wisconsin	8,459	371	8,829
Wyoming	695	700	1,395
TOTAL	\$ 737,207	\$ 71,358	\$ 808,565

Note: Numbers may not add perfectly due to rounding.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

SCHOOLS AND LIBRARIES PROGRAM • COMMITMENTS AND DISBURSEMENTS,
2005 • UNAUDITED (*in thousands*)

State	FUNDING YEAR 2005		CALENDAR YEAR 2005		TOTAL PROGRAM	
	Commitments	Disbursements	Commitments	Disbursements	Commitments 1/1/98-12/31/05	Disbursements 1/1/98-12/31/05
Alabama	\$ 28,391	\$ 4,646	\$ 38,177	\$ 28,023	\$ 232,770	\$ 168,306
Alaska	15,893	2,415	27,095	15,909	112,465	78,180
American Samoa	0	0	2,195	2,421	17,452	15,072
Arizona	14,430	243	50,517	36,008	372,825	240,233
Arkansas	4,867	493	17,035	15,662	132,675	83,019
California	175,815	1,417	350,251	220,789	2,252,127	1,491,971
Colorado	12,998	601	18,930	11,256	134,982	84,060
Connecticut	9,247	678	34,954	19,307	191,125	141,149
Delaware	784	5	891	377	10,221	7,256
District of Columbia	745	15	11,021	10,840	105,275	40,162
Florida	57,966	5,102	118,803	53,437	518,364	315,340
Georgia	32,348	2,440	72,184	50,126	504,499	356,403
Guam	2,382	49	2,382	3,093	18,515	10,484
Hawaii	3,625	79	3,652	1,812	30,662	16,470
Idaho	2,798	63	3,831	2,797	32,510	20,716
Illinois	32,687	863	103,618	73,442	725,015	499,368
Indiana	15,810	433	21,386	12,516	174,265	105,155
Iowa	6,112	670	14,608	10,042	70,746	46,456
Kansas	10,698	901	14,251	10,545	100,259	65,221
Kentucky	14,598	612	30,770	26,481	264,142	168,081
Louisiana	24,287	2,682	52,315	41,487	278,412	200,739
Maine	3,312	78	10,230	9,099	42,774	27,568
Maryland	8,925	195	20,628	12,644	141,049	96,145
Massachusetts	18,889	2,000	38,875	20,954	266,397	172,445
Michigan	34,048	787	60,221	34,722	458,855	299,788
Minnesota	19,417	994	27,490	19,911	188,098	123,461
Mississippi	25,940	842	52,084	29,364	263,848	166,851
Missouri	13,855	854	44,764	36,291	320,127	225,788
Montana	2,954	417	4,425	3,807	29,886	21,454
Nebraska	4,711	682	5,401	6,254	52,165	39,082
Nevada	911	29	3,931	3,166	31,511	22,706
New Hampshire	1,628	83	2,049	1,736	13,432	8,089
New Jersey	28,808	369	54,845	39,404	382,331	250,786
New Mexico	11,055	76	91,830	17,819	315,645	154,925
New York	111,030	2,287	321,325	298,250	2,310,549	1,516,278
North Carolina	35,592	2,559	55,928	36,946	303,479	201,441
North Dakota	1,314	318	2,645	2,956	22,310	16,983
Northern Mariana Islands	388	0	1,661	1,364	7,817	5,765
Ohio	52,804	1,345	72,387	57,444	510,164	327,245
Oklahoma	25,420	3,095	41,892	44,003	297,333	203,249
Oregon	9,822	463	14,373	11,394	100,857	61,964
Pennsylvania	48,117	3,767	59,808	67,149	563,015	415,152
Puerto Rico	1,081	21	38,878	2,966	247,656	120,816
Rhode Island	1,408	31	3,825	6,925	50,834	38,015
South Carolina	5,399	710	39,428	27,579	335,751	215,428
South Dakota	1,511	102	4,839	5,434	31,321	19,820
Tennessee	15,901	2,090	88,583	59,517	357,940	248,143
Texas	126,701	3,194	364,198	274,218	1,781,932	1,145,845
Utah	13,697	10	22,383	7,542	74,279	38,507
Vermont	1,512	85	1,770	1,236	13,816	7,970
Virgin Islands	280	0	6,039	3,976	24,611	18,140
Virginia	24,462	1,272	36,306	25,263	204,307	147,285
Washington	8,660	188	19,401	16,679	169,367	114,994
West Virginia	7,134	43	8,594	7,658	67,157	36,310
Wisconsin	12,081	1,220	22,526	21,021	206,373	148,572
Wyoming	1,560	30	1,637	684	15,889	9,625
TOTAL	\$ 1,146,808	\$ 54,641	\$ 2,634,067	\$ 1,861,745	\$ 16,482,179	\$ 10,820,477

Note: Funding Year data as of 12/31/2005.
Numbers may not add perfectly due to rounding.

SCHOOLS AND LIBRARIES PROGRAM · FUNDING YEAR 2005 STATISTICS
 UNAUDITED (in thousands)

SCHOOLS AND LIBRARIES COMMITMENTS BY DISCOUNT BAND

<i>Discount Band</i>	<i>Telecom Services</i>	<i>Internet Access</i>	<i>Internal Connections</i>	<i>Basic Maintenance</i>	<i>TOTAL</i>	<i>% of Total</i>
20-29%	\$ 1,567	\$ 434	<i>As of December 31, 2005, Internal Connections and Basic Maintenance were only funded at the 90% level for Funding Year 2005.</i>		\$ 2,001	0.17%
30-39%	4,992	1,010			6,002	0.52%
40-49%	76,878	20,760			97,638	8.51%
50-59%	75,976	21,493			97,469	8.50%
60-69%	118,685	30,293			148,978	12.99%
70-79%	183,089	50,069			233,158	20.33%
80-89%	205,934	47,483			253,417	22.10%
90%	46,119	16,593	214,267	31,166	308,145	26.87%
TOTAL	\$ 713,240	\$ 188,135	\$ 214,267	\$ 31,166	\$ 1,146,808	100.00%

SCHOOLS AND LIBRARIES COMMITMENTS BY APPLICANT TYPE

<i>Type</i>	<i>Applications Funded</i>	<i>Commitments</i>	<i>% of Applications</i>	<i>% of Total</i>
<i>School/Library Consortium</i>	449	\$ 63,761	1.75%	5.56%
<i>School District</i>	15,050	\$ 964,793	58.59%	84.13%
<i>School</i>	6,547	\$77,028	25.49%	6.72%
<i>Library/Library Consortium</i>	3,641	\$41,226	14.17%	3.59%
TOTAL	25,687	\$1,146,808	100.00%	100.00%

*Note: Funding Year data as of 12/31/2005. Funding Year: July 1, 2005-June 30, 2006.
 Numbers may not add perfectly due to rounding.*

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

 RURAL HEALTH CARE PROGRAM · COMMITMENTS AND DISBURSEMENTS,
 2005 · UNAUDITED (*in thousands*)

State	COMMITMENTS			DISBURSEMENTS	
	Funding Year 2005	Calendar Year 2005	Total 1/1/98-12/31/05	Calendar Year 2005	Total 1/1/98-12/31/05
Alabama	\$ 0	\$ 18	\$ 97	\$ 19	\$ 91
Alaska	4,373	25,406	78,328	14,949	58,226
American Samoa	0	0	0	0	0
Arizona	171	1,463	5,050	675	3,410
Arkansas	1	137	679	120	517
California	0	476	1,719	456	1,484
Colorado	0	156	817	120	733
Connecticut	0	0	0	0	0
Delaware	0	0	0	0	0
District of Columbia	0	0	0	0	0
Florida	0	352	1,041	107	589
Georgia	35	193	334	114	226
Guam	0	0	0	0	0
Hawaii	78	384	1,474	277	1,350
Idaho	0	133	628	153	485
Illinois	0	533	1,076	196	706
Indiana	0	176	217	112	146
Iowa	82	200	987	186	792
Kansas	0	568	1,788	290	1,382
Kentucky	47	660	2,360	720	1,997
Louisiana	0	5	37	5	31
Maine	0	33	180	49	89
Maryland	0	0	0	0	0
Massachusetts	0	0	0	0	0
Michigan	0	773	3,164	694	2,730
Minnesota	51	920	4,681	845	3,968
Mississippi	0	151	504	133	451
Missouri	0	134	482	118	401
Montana	0	453	2,853	542	2,684
Nebraska	0	836	3,282	746	3,034
Nevada	0	64	341	36	258
New Hampshire	0	3	61	2	57
New Jersey	0	0	0	0	0
New Mexico	0	267	1,426	293	1,146
New York	0	20	193	6	179
North Carolina	0	175	951	149	748
North Dakota	180	633	2,813	503	2,471
Northern Mariana Islands	0	0	0	0	0
Ohio	0	190	550	45	337
Oklahoma	0	165	497	129	380
Oregon	0	23	239	22	184
Pennsylvania	0	83	190	75	154
Puerto Rico	0	0	0	0	0
Rhode Island	0	0	0	0	0
South Carolina	0	45	127	41	119
South Dakota	161	498	2,057	469	1,666
Tennessee	0	91	258	61	173
Texas	143	592	1,032	132	420
Utah	0	519	1,760	363	1,283
Vermont	10	45	51	20	25
Virgin Islands	0	112	487	102	455
Virginia	0	354	967	299	740
Washington	0	74	432	64	366
West Virginia	0	137	393	91	241
Wisconsin	55	1,374	2,834	940	2,077
Wyoming	0	84	572	100	512
TOTAL	\$ 5,388	\$ 39,707	\$ 130,009	\$ 25,570	\$ 99,511

Note: Funding Year data as of 12/31/2005.
 Numbers may not add perfectly due to rounding.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

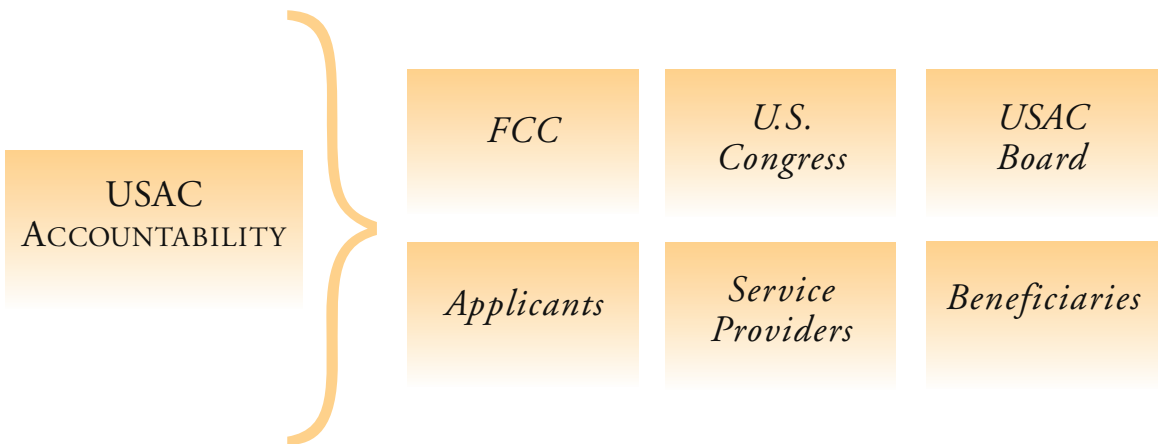
 UNIVERSAL SERVICE FUND DISBURSEMENTS BY PROGRAM • CALENDAR YEAR 2005
 UNAUDITED (in thousands)

State	High Cost	Low Income	Rural Health Care	Schools & Libraries	Total 2005 Disbursements	Total All Programs 1998-2005
Alabama	\$ 109,343	\$ 3,224	\$ 19	\$ 28,023	\$ 140,609	\$ 847,385
Alaska	120,274	7,374	14,949	15,909	158,506	816,842
American Samoa	2,318	60	0	2,421	4,799	23,862
Arizona	74,550	20,310	675	36,008	131,543	762,176
Arkansas	140,997	2,369	120	15,662	159,148	879,135
California	98,866	304,668	456	220,789	624,778	4,475,884
Colorado	79,277	3,514	120	11,256	94,167	616,358
Connecticut	2,249	5,315	0	19,307	26,871	194,195
Delaware	259	277	0	377	913	13,606
District of Columbia	0	893	0	10,840	11,733	48,163
Florida	91,450	17,761	107	53,437	162,755	950,860
Georgia	111,693	8,282	114	50,126	170,215	1,179,357
Guam	19,165	421	0	3,093	22,679	55,084
Hawaii	29,525	694	277	1,812	32,307	97,234
Idaho	55,055	3,923	153	2,797	61,928	390,593
Illinois	63,506	9,291	196	73,442	146,436	902,948
Indiana	56,632	5,716	112	12,516	74,977	449,266
Iowa	90,336	6,198	186	10,042	106,762	471,058
Kansas	178,684	3,149	290	10,545	192,669	862,238
Kentucky	83,600	7,537	720	26,481	118,338	589,974
Louisiana	111,241	2,414	5	41,487	155,146	891,137
Maine	28,812	8,795	49	9,099	46,755	315,130
Maryland	4,327	502	0	12,644	17,472	122,975
Massachusetts	3,634	14,270	0	20,954	38,858	343,805
Michigan	53,575	11,425	694	34,722	100,415	735,291
Minnesota	113,352	5,993	845	19,911	140,101	695,780
Mississippi	209,251	3,619	133	29,364	242,366	1,251,476
Missouri	85,146	5,396	118	36,291	126,951	841,240
Montana	76,731	2,631	542	3,807	83,711	502,340
Nebraska	55,890	2,406	746	6,254	65,295	324,369
Nevada	29,639	4,075	36	3,166	36,916	216,144
New Hampshire	8,732	632	2	1,736	11,102	91,182
New Jersey	1,332	14,530	0	39,404	55,266	323,334
New Mexico	58,511	10,655	293	17,819	87,278	551,987
New York	51,833	52,544	6	298,250	402,633	2,334,951
North Carolina	80,179	14,504	149	36,946	131,778	705,270
North Dakota	62,718	3,804	503	2,956	69,982	337,032
Northern Mariana Islands	668	85	0	1,364	2,117	31,055
Ohio	37,754	35,022	45	57,444	130,266	727,524
Oklahoma	120,188	32,358	129	44,003	196,679	969,693
Oregon	68,469	7,307	22	11,394	87,192	553,836
Pennsylvania	65,504	19,156	75	67,149	151,884	820,625
Puerto Rico	133,786	13,286	0	2,966	150,038	1,144,491
Rhode Island	44	4,622	0	6,925	11,591	74,405
South Carolina	76,322	2,869	41	27,579	106,811	730,977
South Dakota	77,788	7,280	469	5,434	90,971	342,915
Tennessee	54,684	6,141	61	59,517	120,404	627,933
Texas	230,017	72,330	132	274,218	576,696	2,882,265
Utah	23,579	2,927	363	7,542	34,411	193,556
Vermont	35,244	2,842	20	1,236	39,342	223,604
Virgin Islands	22,618	158	102	3,976	26,854	215,557
Virginia	87,312	2,257	299	25,263	115,131	606,745
Washington	94,387	19,823	64	16,679	130,953	763,813
West Virginia	66,318	710	91	7,658	74,776	519,107
Wisconsin	130,225	8,829	940	21,021	161,016	810,576
Wyoming	56,598	1,395	100	684	58,777	327,444
TOTAL BY PROGRAM	\$ 3,824,186	\$ 808,565	\$ 25,570	\$ 1,861,745	\$ 6,520,065	\$ 37,775,785

Note: Numbers may not add perfectly due to rounding.

ACCOUNTABILITY

- *The FCC provides direct oversight of USAC’s activities and performance pursuant to federal regulations. The FCC and USAC maintain a close working partnership with a focus on integrity and service.*
- *Congress established the framework for universal service in the Telecommunications Act of 1996. USAC responds to all congressional inquiries and provides testimony as requested.*
- *USAC’s 19-member Board of Directors governs the company’s day-to-day operations. The Board approves budgets for the four support programs and provides oversight, direction, and advice to USAC staff.*
- *Program applicants seek USF support from the Rural Health Care and Schools & Libraries programs. USAC’s objective is to process applications efficiently while protecting the integrity of the process. Applicant input is valuable to improve programs.*
- *Service providers—whether a small rural telecom company, an Internet service provider, or a national service provider—are the recipients of USF support, which ultimately benefits the applicants and beneficiaries.*
- *Beneficiaries include schools, libraries, rural health care centers, low-income consumers, and people living in high-cost areas.*



USAC submits an annual report to Congress and the FCC in accordance with 47 C.F.R. 54.702(h), which requires USAC to report on its operations, activities, and accomplishments for the prior year, including information about participation in each of the universal service programs and administrative action intended to ensure program integrity. Pursuant to FCC rules, USAC has consulted with FCC staff to determine the scope and content of the annual report.

2005 BOARD OF DIRECTORS

USAC's Board of Directors is appointed by the Chairman of the FCC. Board members are nominated by the telecommunications and information services industry, state telecommunications regulators, consumer advocates, low-income consumers, rural health care providers, schools, and libraries.

The USAC Board of Directors has five standing committees: AUDIT COMMITTEE, EXECUTIVE COMMITTEE, HIGH COST & LOW INCOME COMMITTEE, RURAL HEALTH CARE COMMITTEE, and SCHOOLS & LIBRARIES COMMITTEE.

USAC is required to disclose Board member expenses for events other than attendance at USAC Board meetings. During 2005, there were no expenses incurred for Board members other than travel to USAC Board meetings.

To learn more about USAC's Board of Directors, go to www.usac.org/about/governance/board-directors.

MEMBERS

JONATHAN ASKIN
General Counsel
Pulver.com Enterprises

DAVID N. BAKER
Vice President — Law & Public Policy
EarthLink, Inc.

JONATHAN BANKS
Vice President — Executive and
Regulatory Policy
BellSouth Corp.

ANNE L. BRYANT
Executive Director
National School Boards Association

KAREN BULLER
President and CEO
National Indian
Telecommunications Institute

ANNE L. CAMPBELL
City Librarian
National City Public Library

DR. DOUGLAS D. CHRISTENSEN
Commissioner of Education
Nebraska Department of Education

DIANE CORNELL*
Vice President for Regulatory Policy
CTIA — The Wireless Association™
**Served through August 2005*

BRIDGET DUFF
Director — Education Policy
Cox Communications, Inc.

EDWIN H. EICHLER
President
Pigeon Telephone Company

KEVIN HESS
Vice President — Federal Affairs
TDS Telecom

ALISON HUGHES
Director, Rural Health Office
Mel & Enid Zuckerman
Arizona College of Public Health

JAMES JACKSON
Regulatory Attorney
General Communications, Inc.

WAYNE R. JORTNER
Senior Counsel
Maine Public Advocate Office

JOEL LUBIN
Vice President
AT&T, Inc.

JAY H. SANDERS, M.D.
President and CEO
The Global Telemedicine Group

JO ANNE SANFORD
Chair
North Carolina
Utilities Commission

DR. BRIAN L. TALBOTT
Executive Director
Association of Educational
Service Agencies

LISA M. ZAINA
Chief Executive Officer
Universal Service
Administrative Company



THE UNIVERSAL SERVICE ADMINISTRATIVE COMPANY (USAC) *administers the Universal Service Fund (USF), which provides communities across the country with affordable access to telecommunications services.*

Helping Keep Americans Connected

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