



Universal Service: Keeping Americans Connected

USAC administers federal universal service programs providing communities across America with affordable telecommunications services.

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OVERVIEW

USAC administers the four federal universal service programs — High Cost, Low Income, Rural Health Care, and Schools and Libraries — and collects universal service funds under terms defined by the Telecommunications Act of 1996 as well as regulations, orders, and directives issued by the Federal Communications Commission (FCC or Commission) and its bureaus and offices.

PROGRAM DISBURSEMENTS



Beneficiaries across the country get and stay connected thanks to federal universal service support disbursed to service providers participating in one or more of the universal service programs. The range of beneficiaries is diverse and widespread. For example, a job seeker in New York can use Internet access provided by a school after hours to find work. A doctor in a remote area of Alaska can use online imaging and communications tools for a patient consultation with a medical specialist without having to travel hundreds of miles. And grandparents on a fixed income can talk on the phone with family members, no matter how far apart they live.

The **High Cost Program** helps to ensure that consumers across the country pay rates for telecommunications services that are comparable to those available in urban areas. In 2011, over 1,900 eligible telecommunications carriers received High Cost Program support, which benefits Americans living in remote or rural areas.

The **Low Income Program** helps eligible low-income consumers establish and maintain telephone service by discounting services provided to them by local telephone companies. Over 13.7 million low-income households throughout the nation benefited from the program in 2011.

The **Rural Health Care Program** provides reduced rates to rural health care providers — including mobile health centers, hospital pharmacies, and medical training institutions — for telecommunications and Internet services necessary for providing health care. Over 3,000 health care providers received support this year. The FCC's Rural Health Care Pilot Program is supporting the development of advanced networks to support telemedicine services across the country.

The **Schools and Libraries Program**, often called “E-Rate,” provides discounts to help schools and libraries in every U.S. state and territory secure affordable telecommunications, Internet access, basic maintenance, and internal connections. Over 21,000 eligible applicants benefited from Schools and Libraries Program support in Funding Year 2011, bringing telecommunications and Internet services to millions of students and library patrons.

CHAIRMAN AND ACTING CEO LETTER

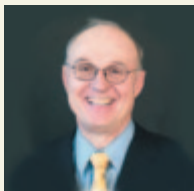
Reviewing the accomplishments of 2011 made clear to us that USAC has matured into a dynamic, expert administrator of the universal service programs. The stories in this annual report about efficiencies, precise operations, and deep knowledge show how USAC has gained command of all that goes into making universal service a reality. As a nimble, responsive partner with the Federal Communications Commission (FCC or Commission), USAC is excited to bring these capabilities to a time of dramatic change as the focus of universal service evolves from supporting telephone networks to using the Internet to keep Americans connected.

In 2011, the FCC issued significant orders that brought expansive changes to the shape of universal service programs. USAC helped implement these changes by providing timely and accurate data for the Commission to use in formulating these decisions. When the FCC announced program changes, USAC was able to assess program impact, analyze changes needed, and adapt operations to ensure the directives were carried out quickly and efficiently.

USAC's recent efforts to bring various program operations in-house have paid off for USAC and program participants. Shaped by long experience with universal service programs, these efforts have made USAC faster at disbursing funds and notifying stakeholders of changes that affect them. Program operations have become more efficient, and USAC is reaching more people in more ways than ever.

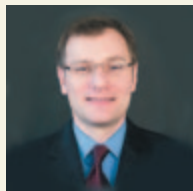
USAC's program knowledge generated new and improved processes that ultimately saved time and money for USAC and applicants while promoting program integrity. The Payment Quality Assurance program, for example, grew out of USAC's extensive grasp of possible program trouble spots and makes it possible to identify potential improper payments more quickly, more accurately, and at a much lower cost than prior approaches. The Beneficiary and Contributor Audit Program enables USAC to use audit approaches tailored to both the distinctive features of an auditee's organization and the specific amounts of money being audited.

USAC continues to gain valuable expertise in collecting and disbursing universal service support. A strong record of accomplishment makes USAC uniquely qualified to administer universal service changes in whatever form they come. FCC oversight, USAC staff expertise, and guidance from our Board of Directors made for numerous, varied successes in 2011 and will sustain USAC's high level of performance in the future.



A handwritten signature in black ink that reads "B. L. Talbott".

Dr. Brian L. Talbott
Chairman of the Board



A handwritten signature in black ink that reads "D. Scott Barash".

D. Scott Barash
Acting Chief Executive Officer

FUND ADMINISTRATION

USAC is always working to improve processes and increase efficiency in our administrative operations.

In 2011, USAC started a number of initiatives, including improving our information technology (IT) infrastructure, installing a new accounting and purchasing workflow tool, and increasing outreach to contributors and service providers. IT upgrades moved existing databases to a new system that allows USAC to automate more processes and to reduce the risk of manual entry errors.

In 2011, USAC ramped up program integrity activities begun in 2010 to measure improper payment rates and monitor compliance with program rules. The Payment Quality Assurance (PQA) Program enables USAC to estimate improper payment rates by universal service support program. Results of over 1,600 assessments of individual payments showed low rates in all four programs: the High Cost Program rate was 0.11%, the Low Income Program was 0.23%, the Rural Health Care Program was 1.7%, and the Schools and Libraries Program was 0.94%. Under the Beneficiary and Contributor Audit Program (BCAP), USAC completed over 60 audits in 2011, examining \$1.7 billion in universal service funding. Fully implemented, this program will give USAC the capacity to conduct over 340 audits per year.

Knowledge gained from PQA and BCAP enables USAC to pass on real-life lessons in compliance and managing disbursements to program participants through outreach materials and training. USAC is reaching more stakeholders in a wider variety of ways than ever before. In 2011, USAC increased its activities in webinars, individual outreach, and broadcast emails, making over 108,000 contacts to program participants and beneficiaries, up 46% over 2010. USAC participated in 44 professional meetings in 2011, including many state telecom associations, the National Association of State Utility Consumer Advocates, the National Alliance for Public Charter Schools, and the National Rural Health Association, among others.

USAC supports FCC oversight of universal service activities, providing regular, significant amounts of data about the fund and the universal service programs. The FCC relies on this data, as well as input from USAC, to address important matters including potential program rules, form changes, and investigations.

500+
webinar participants

75% online
filing
rate
for FCC Form 499

\$8.10B
in disbursements

USAC ADMINISTRATIVE EXPENSES (Unaudited)

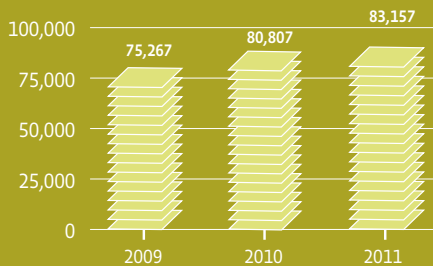
YEAR	EXPENSE RATE	USAC ADMINISTRATIVE EXPENSES	FCC OIG USF AUDIT PROGRAM COSTS ²	TOTAL ADMINISTRATIVE EXPENSES
2007	1.51%	\$ 84,729,000	\$ 19,955,000	\$ 104,684,000
2008	2.42%	\$ 91,677,000	\$ 80,555,000	\$ 172,232,000
2009	2.57%	\$ 99,591,000	\$ 87,074,000	\$ 186,665,000
2010	1.33%	\$ 102,089,000	\$ 3,337,000	\$ 105,426,000
2011 ¹	1.32%	\$ 106,880,000	\$ 205,000	\$ 107,085,000

NOTES — 1. USAC administrative expenses based on unaudited financial statement in this annual report for 2011.
 2. FCC Office of Inspector General (OIG) USF audit expenses as reported in Board of Directors meetings.

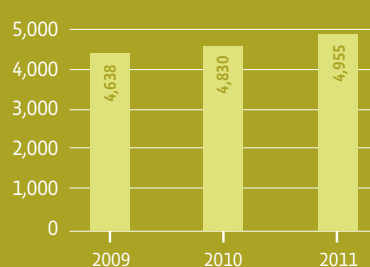
HOW USAC WORKS

Highlights of Fund Administration

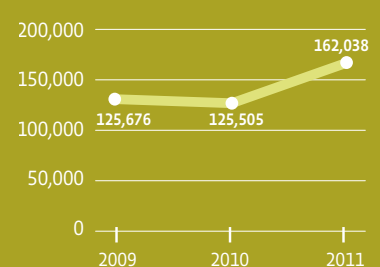
83,100+ PAYMENTS TO BENEFICIARIES IN 2011



4,900+ MONTHLY CONTRIBUTOR INVOICES IN 2011



162,000+ INQUIRIES ANSWERED IN 2011



THE REACH OF **UNIVERSAL SERVICE**



WIRELESS
CARRIER



MOUNTAINOUS
REGION



LIBRARY



CLINIC



WIREFINE
CARRIER



CONSUMER



REMOTE LOCATION



COMMUNITY



SCHOOL



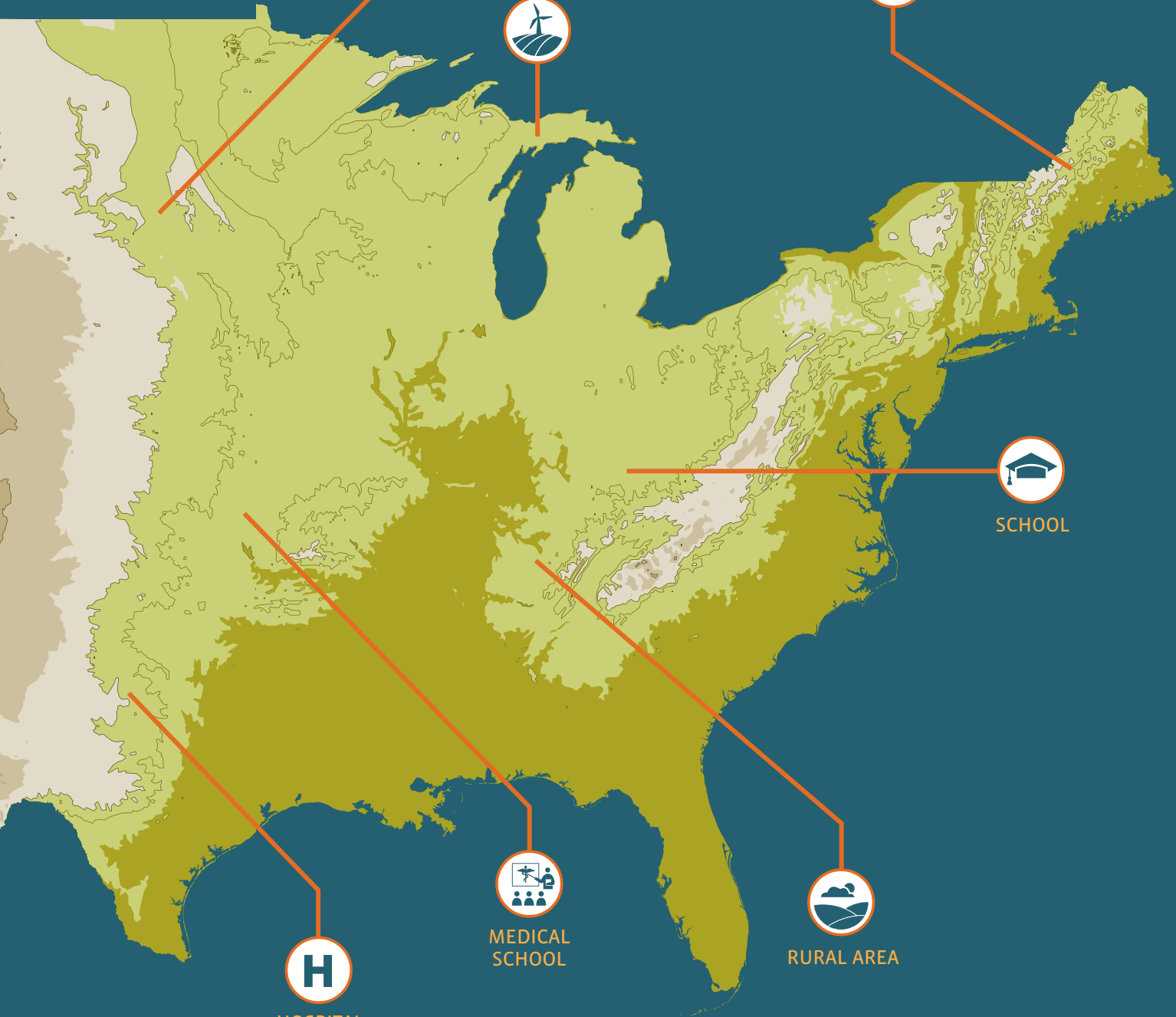
MEDICAL SCHOOL



RURAL AREA



HOSPITAL



HIGH COST PROGRAM

The High Cost Program helps to ensure that consumers across the country pay rates for telecommunications services that are comparable to those available in urban areas.

Infrastructure changes implemented in 2009 and 2010 started paying off in 2011 and will continue to do so in 2012 in the High Cost Program. USAC was able to plan for and accommodate major changes to the program when the FCC created the new Connect America Fund (CAF) and Mobility Fund. These large departures from existing funding mechanisms required an assessment of necessary changes, a plan to implement them, and modifications to current business and operational processes, including new support calculations. These changes also included working with the FCC to create new website pages and outreach materials for the legacy High Cost Program and new CAF.

Continuing systems improvements in 2011 positioned USAC to make improvements in High Cost Program legacy operations, as well. These improvements included integrating the High Cost cap feeder system into the High Cost payment system to improve calculation processing times by 35%, implementing parallel calculation logic for High Cost Loop to increase system performance by 16%, and adjusting the nightly backup process to significantly decrease its impact on calculation runs.

This new infrastructure also enabled USAC to develop a new disbursement search tool that allows competitive carriers to get greater details on the calculations USAC uses to generate their High Cost Program support payments. The adoption rate for the online competitive carrier FCC Form 525 increased to 80.3%, up 15.5% over last year.

In 2011, the High Cost Program completed 40 in-depth validations of data submitted by carriers. USAC also implemented competitive carrier line count validation procedures in March and completed 18 line count validations in 2011 as part of its role in maintaining program integrity.

USAC continued to increase its participation at industry events by speaking or exhibiting at 26 events in 2011. USAC held in-person High Cost and Low Income Program training sessions in Atlanta and Denver, and a March webinar series offered much of the same content over the Internet for those who could not attend the live trainings. Topics included overviews of each program, best practices, and program audits.



110
million
lines supported

1,903
study areas supported
in 2011 (represents
985 companies)



Competitive
carriers filing
FCC Form 525
online

80.3%

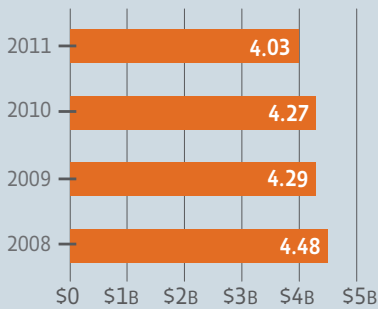
HOW USAC WORKS

Highlights of the High Cost Program

18,000+ payments
made to eligible carriers in 2011

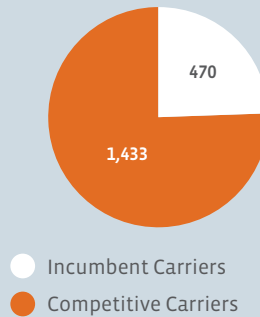
1,700+ inquiries
answered in 2011

DISBURSEMENTS



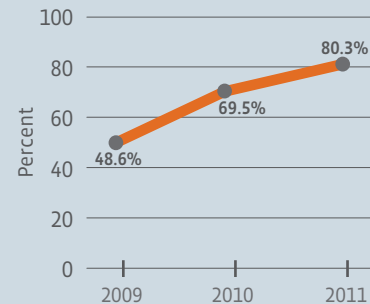
Disbursed over **\$4.03B**
to eligible carriers in 2011

STUDY AREAS SUPPORTED IN 2011



Total = **1,903** Study Areas

ONLINE FILERS



Competitive carriers filing
FCC Form 525

Universal service support makes operations and services affordable for companies serving remote, hard-to-serve areas of the country.



REMOTE LOCATION

A wireless carrier in the upper Midwest can build and maintain cell phone towers serving sparsely populated areas.



MOUNTAINOUS REGION

Carriers of all sizes serving the length and breadth of the Rocky Mountains can provide phone lines for customers in this difficult terrain.



RURAL AREA

Rural communities across the country have access to telecommunications services, even if they are far from population centers and hubs of network infrastructure.

LOW INCOME PROGRAM

The Low Income Program helps eligible low-income consumers maintain telephone service at affordable rates.

USAC worked with the FCC to identify and de-enroll duplicate Lifeline subscribers in 2011. In addition, USAC submitted a plan for paying carriers based on their actual support claims instead of projected payments.


In support of the FCC-mandated Lifeline duplicate detection initiative, USAC developed and deployed the Low Income Duplicate Detection System (LIDDS) in selected states. This system identifies and reports potential duplicate Lifeline subscribers. LIDDS enabled USAC to meet FCC deadlines related to this initiative. Through December 31, USAC performed an analysis of 47 carriers in 12 states and directed carriers to de-enroll duplicate subscribers.

USAC proposed a plan to the FCC in August for disbursing Low Income Program support using claims for reimbursement of actual support payments instead of the current system, which has used projections based on carriers' actual data. USAC is in the process of modifying its systems to ensure a smooth transition to this new payment methodology.

USAC migrated its system servers' operating systems as well as its database platform in 2011. These upgrades allowed for faster processing speeds and improved support calculations. Online data submission rates peaked at 75% in September. With many new eligible carriers entering the program, USAC staff will be conducting aggressive outreach to individual carriers in 2012 to increase this percentage.

In addition to the training sessions and webinars held in conjunction with the High Cost Program, Low Income Program staff members worked one-on-one with numerous carriers, helping new entrants orient themselves to program requirements and assisting others who encounter problems with filing data.

USAC is working to implement the many changes in the FCC's 2012 Low Income reform order including a broadband pilot program and the creation of a national database to prevent duplicate Lifeline subscribers. USAC also will work with beneficiaries to help them understand and comply with requirements.

Online data submission rates peaked at
 **75%**

2,025
study areas supported in 2011 (represents 940 companies)

 **550+**
training participants

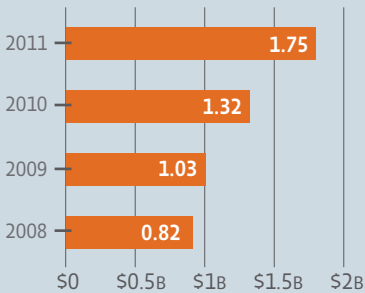
HOW USAC WORKS

Highlights of the Low Income Program

18,200+ payments
made to eligible carriers in 2011

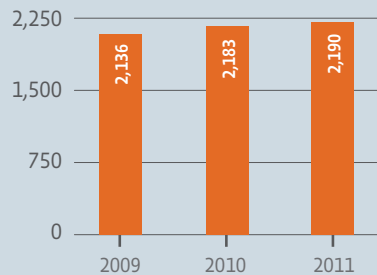
13,800+ inquiries
answered in 2011

DISBURSEMENTS



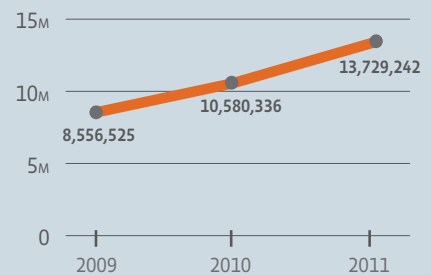
Disbursed **\$1.75B**
to eligible carriers in 2011

LOW INCOME STUDY AREAS



2011 Total = **2,190**
Study Areas

LIFELINE CONNECTIONS



13.7 million average
Lifeline connections in 2011

Universal service support makes starting and keeping telephone service possible for low-income Americans.



CONSUMER

A veteran receiving health benefits can call grandchildren to wish them a happy birthday.



WIRELINE CARRIER

A telephone company can bring phone service to a Navajo family's home, connecting them to doctors, teachers, and family near and far.



WIRELESS CARRIER

A recently unemployed parent can get a cell phone, helping connect with potential employers while keeping the household running.

RURAL HEALTH CARE PROGRAM

The Rural Health Care Program provides reduced rates for telecom and Internet services necessary for providing health care.

USAC received 4,411 FCC Form 465s and 3,946 funding requests, or “packets,” for Funding Year 2011. This was an increase of 14% in FCC Form 465s and 30% in packets over Funding Year 2010.

USAC released the first funding commitment letters for Funding Year 2011 in mid-September — the earliest in the life of the program. In addition, applicants submitted more than 1,000 packets in September, the highest number received for any month not at the end of a funding year. USAC maintained a high rate of efficiency in keeping the average packet processing queue below 25% of annualized packet intake.

In 2011, USAC started to build an in-house application processing system, due to launch for the Funding Year 2012 filing window. Rural Health Care Program staff developed procedures for processing program forms and worked with USAC information technology staff to integrate the forms into the system. The new system will increase operational, reporting, and processing efficiency, with built-in data validations helping to reduce program risks and prevent waste, fraud, and abuse.

Rural Health Care Program staff exhibited or presented at 10 industry events in 2011 including first-time attendance at the Virginia Telehealth Network conference, the Maine Telehealth Collaborative Annual conference, and the National Rural Health Association conference in Kansas City.

USAC also stepped up development of webinars, new web-based tools, and web-based tutorials. In April, program staff hosted a webinar on competitive bidding and evergreen contracts. In May, program staff conducted training for its vendor on changes to the Rural Health Care Pilot Program’s network cost worksheet, and in June USAC conducted a webinar for 42 Alaska-based beneficiaries and service providers.

Since the Pilot Program’s inception through December 31, 2011, USAC posted 140 FCC Form 465 packages for 50 projects; issued 243 funding commitments totaling \$208 million to 50 projects; disbursed \$92 million in Pilot Program funds to 42 projects; and verified the eligibility of approximately 5,475 health care providers participating in Pilot Program networks. USAC made six Pilot Program visits in 2011.

5,475

health care providers in Pilot Program networks



3,088

health care providers supported in the primary program

8,600+

funding requests approved in Funding Year 2010

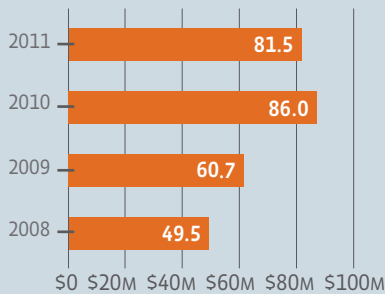
HOW USAC WORKS

Highlights of the Rural Health Care Program

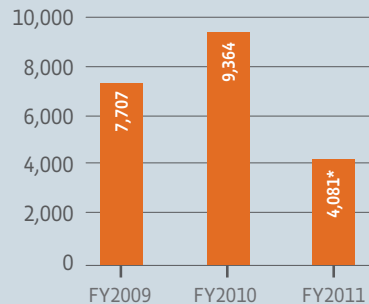
868 payments
made to service providers in 2011

472 service providers
participated in 2011

DISBURSEMENTS

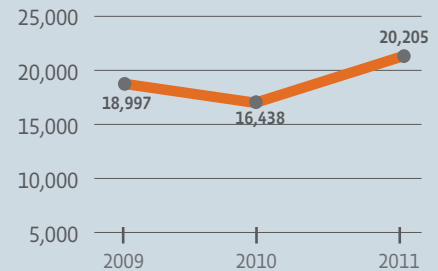


APPLICATIONS RECEIVED



FY=Funding Year (July 1 to June 30)
*As of December 31, 2011

INQUIRIES



\$81.5M disbursed to
program participants in 2011

Total = **4,081** applications
received in FY2011

20,200+ calls and inquiries
answered in 2011

Universal service support makes health care services accessible to Americans no matter where they live.



HOSPITAL

A rural emergency room can use a broadband connection to send X-rays to a specialist hundreds of miles away and get an immediate second opinion.



CLINIC

Rural clinics—isolated by geography, extreme weather, or other factors—can provide regular access to psychiatric care through high-speed video-conferencing connections that bring patients and doctors face-to-face.



MEDICAL SCHOOL

Medical school students can watch experts anywhere in the world demonstrating techniques over the Internet for operations of all kinds.

SCHOOLS AND LIBRARIES PROGRAM

The Schools and Libraries Program (often called E-Rate) provides discounts to help schools and libraries obtain telecommunications, telecommunications services, Internet, internal connections, and basic maintenance of internal connections at affordable rates.

Greater efficiency was the focus in the Schools and Libraries Program in 2011, highlighted by a record first wave of funding commitments to 18,500 applicants in June. USAC proposed, and the FCC approved, several efficiency measures for Funding Year 2012 that will reduce contractor costs by 10% — money that will go back into the program to fund more applicants. These changes will speed up both USAC's funding decisions and invoicing operations for applicants and service providers. The FCC also revised some key program forms to streamline data reporting, making them easier for applicants to file and USAC to review.

The FCC launched several initiatives in 2011 that supported the direction many schools and libraries are taking in areas of technology and online connectivity. In July, the FCC announced Learning On-The-Go, a pilot program designed to support off-campus wireless connectivity for mobile learning. The FCC selected 20 projects for this pilot, and USAC received 20 applications requesting over \$9 million. As of December 31, 2011, USAC committed over \$7.8 million in support for Learning On-The-Go.

USAC, in the first quarter of 2011, fully implemented the invoicing recommendations made by the Government Accountability Office in 2010. In 2011, USAC processed a record number of invoice lines while maintaining a high degree of accuracy and timeliness.

Increased outreach and training helped USAC communicate program and rule changes to applicants and service providers, which helped applicants and service providers comply with FCC program rules. USAC held service provider training sessions in Atlanta and Los Angeles in May, attended by over 400 participants. The annual Fall applicant training sessions took place in eight cities nationwide, drawing over 1,500 participants.

In 2011, USAC conducted outreach to 1,041 Helping Applicants to Succeed (HATS) program participants: 211 in person; 105 by telephone and videoconference; and 725 in targeted outreach projects. USAC initiated outreach with applicants in 50 states, the District of Columbia, Puerto Rico, Guam, and the Northern Mariana Islands, providing guidance on filing forms properly and what to do next.

 **1,900+**
training participants

1,041
HATS visits

 **31,000+**
weekly News Brief recipients

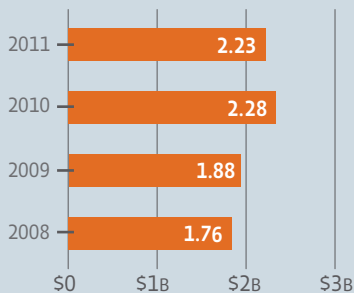
HOW USAC WORKS

Highlights of the Schools and Libraries Program

46,000+ payments made to service providers in 2011

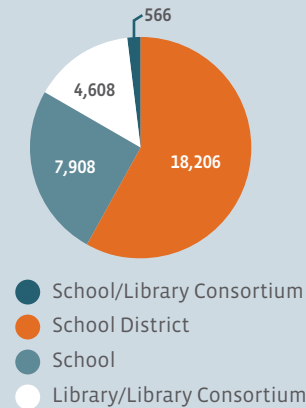
4,165 service providers participated in 2011

DISBURSEMENTS



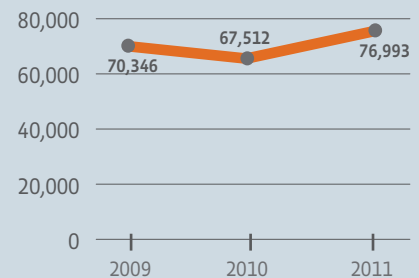
\$2.23B disbursed to program participants in 2011

FUNDING YEAR 2011 APPLICANT TYPES



Total = **31,288** applicants funded

INQUIRIES



76,900+ calls and inquiries answered in 2011

Universal service support helps schools and libraries secure affordable Internet and telephone service in all states and territories.



LIBRARY

A library can offer high-speed Internet access for job seekers to look for work and submit resumes online.



SCHOOL

High school students can connect with their peers across the country to collaborate on a research project.



COMMUNITY

A middle school can offer broadband Internet access after hours to community members so they can apply for jobs, learn new skills, and access government programs online.

Management's Discussion & Analysis

Mission and Structure

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

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

Performance Measures

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

FUND ADMINISTRATION	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
USF CONTRIBUTOR STATISTICS				
Number of USF contributors	2,988	2,990	3,021	3,042
Number of delinquent contributors	1,473	1,947	2,119	1,978
Contributors assessed late fees or penalties	1,308	1,240	1,346	814
AVERAGE TIME TO PROCESS PAYMENTS (Days)				
High Cost	4	5	4	1
Low Income	29	29	29	29
Rural Health Care (Funding Year 2010)	14	14	14	12
Schools and Libraries (Funding Year 2010)	5	5	5	6
USAC COMPLAINT STATISTICS				
Complaints about USAC	22	12	28	16
Average number of business days to resolve complaints	0.8	1.1	0.9	0.9

HIGH COST PROGRAM	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Total supported lines	121,945,192	114,879,926	112,048,199	110,208,845
Average support dollars/line	\$ 8.52	\$ 8.99	\$ 9.32	\$ 9.57
Median support dollars/line	\$ 1.25	\$ 1.41	\$ 1.41	\$ 1.66

LOW INCOME PROGRAM	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Median dollars disbursed per ETC	\$ 1,010	\$ 1,044	\$ 1,072	\$ 1,029

RURAL HEALTH CARE PROGRAM	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
APPLICATION TYPES <i>(all numbers cumulative for funding year)</i>				
Funding Year 2011				
Telecom	n/a	233	1,630	3,094
Internet	n/a	69	462	987
Funding Year 2010				
Telecom	3,644	6,552	6,589	6,612
Internet	1,129	2,598	2,640	2,752

APPLICATION OUTCOMES <i>(all numbers cumulative for funding year)</i>				
Funding Year 2011				
Submitted	n/a	302	2,092	4,081
Granted	n/a	n/a	66	222
Rejected	n/a	n/a	9	33
Funding Year 2010				
Submitted	4,773	9,150	9,229	9,364
Granted	2,969	4,603	6,952	8,460
Rejected	165	309	485	677

INVOICES FUNDING YEAR 2010 <i>(all numbers cumulative for funding year)</i>				
Invoices received	330	1,010	1,689	2,218
Invoices paid	286	825	1,590	2,138
Invoices rejected	17	37	45	51

APPEALS				
Current appeals (new appeals received in each quarter)	7	4	7	6
Average calendar days to resolve appeals	147	215	152	129

SCHOOLS AND LIBRARIES PROGRAM	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
APPLICATION OUTCOMES				
<i>(all numbers cumulative for funding year)</i>				
Funding Year 2011				
Submitted	44,190	44,609	44,624	44,639
Granted	n/a	19,221	25,790	31,286
Rejected	n/a	57	110	233
Funding Year 2010				
Submitted	43,876	43,881	43,881	43,882
Granted	36,644	37,561	38,387	39,159
Rejected	1,095	1,136	1,141	842
INVOICES FUNDING YEAR 2010				
<i>(all numbers cumulative for funding year)</i>				
Invoices received	198,911	323,623	438,521	504,037
Invoices paid	179,085	291,031	393,545	450,736
Invoices denied	14,337	23,577	29,598	37,512
APPEALS				
Current appeals (new appeals received in each quarter)	346	264	401	377
Average calendar days to resolve appeals	79	105	83	77

Systems, Controls, and Legal Compliance

USAC has a formal internal control structure and review process consistent with the guidance in Office of Management and Budget (OMB) Circular A-123 titled “*Management’s Responsibility for Internal Control*,” including Appendix A (*Implementation Plans*). In 2011, the internal controls group enhanced USAC’s overall internal control framework with their testing program and successfully moved all of USAC’s policies and procedures into a new framework. No material weaknesses were identified during the 2011 internal control assessments. In addition to annual internal control assessments, USAC contracts with an independent audit firm to perform an annual audit of its financial statements as well as agreed upon procedures in compliance with the requirements in 47 C.F.R. Part 54. The FCC’s auditors also audit the universal service fund (USF) as part of the annual FCC financial audit.

USAC’s current financial management system is a widely used and commercially accepted accounting system. However, as the administrator of the USF, it is the responsibility of USAC’s management to be in compliance with laws and regulations applicable to the USF. The 2011 audit of the FCC’s financial statements identified a non-compliance with the Federal Managers Financial Integrity Act of 1982. The non-compliance noted was that the financial systems of the FCC’s reporting components (e.g., the USF) do not achieve the federal financial system integration standards as determined by OMB. Although USAC’s financial systems are not currently compliant with OMB standards, we have compensating controls in place to ensure all financial data is accurate and meets the requirements of the FCC. We are actively working with the FCC to obtain and implement a fully compliant financial management system.

Financial Information

The accompanying USAC unaudited financial statements and tables are the responsibility of USAC management and reflect all necessary adjustments and reclassifications that are necessary for fair presentation of the period presented. The results for the year ended December 31, 2011 are not considered final until the 2011 financial statement audit is completed by our independent auditors. These unaudited financial statements and tables should be used in conjunction with the audited financial statements and the notes thereto for the years ended December 31, 2010 and 2009 included herein.

The table below presents selected data about USAC's staffing and operations for 2011 and 2010.

Item	2011	2010
Number of employees	268	247
Personnel costs	\$ 30,304,000	\$ 27,201,000
Overall general and administrative expenses	\$ 15,285,000	\$ 24,639,000
Contract expenses	\$ 55,347,000	\$ 46,577,000

Overall general and administrative expenses decreased because of reduced costs associated with implementing the large-scale USF audit program required by the FCC Office of Inspector General (OIG) between 2007 and 2010.

2011 USAC CONTRACTORS RECEIVING PAYMENTS GREATER THAN \$1 MILLION

Contractor/Vendor	Type of Account	Type of Goods/Services	Procurement Method
Solix, Inc.	Other Contractual Services	RHC-SL Operational Support Services	Competitive bid
Science Applications International Corp.	Other Contractual Services	RHC-SL Information Technology Services	Competitive bid
The Guardian Life Insurance Company	Other Contractual Services	Employee Benefits	Competitive bid
Brookfield Properties	Other Contractual Services	Office Lease	Competitive bid
Cotton & Company LLP	Other Contractual Services	Payment Quality Assurance Support Services	Competitive bid

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

STATEMENT OF FINANCIAL POSITION OF USAC

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

2011

ASSETS	
Current Assets	
Cash	\$ 3,621
Prepaid expenses and other current assets	10,111
Assets held for the Federal USF	1,733,689
Total Current Assets	1,747,421
Fixed Assets, less accumulated depreciation and amortization of \$25,054	6,997
Other Assets	390
Assets held for the Federal USF	4,900,047
TOTAL	\$ 6,654,855
LIABILITIES AND UNRESTRICTED NET ASSETS	
Current Liabilities	
Accounts payable and accrued expenses	\$ 8,095
Advance from USF	13,024
Liabilities related to assets held for the Federal USF	1,733,683
Total Current Liabilities	1,754,802
Liabilities related to assets held for the Federal USF	4,900,053
Net Assets	0
TOTAL	\$ 6,654,855

STATEMENT OF OPERATIONS AND CHANGE IN UNRESTRICTED NET ASSETS OF USAC

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

2011

REVENUE , primarily contract revenue	\$ 107,085
Operating Expenses	
Contractual expenses	55,347
Personnel and related expense	30,304
General and administrative	15,285
Depreciation, amortization and loss on retirements	6,149
Total Operating Expenses	107,085
Change in Net Assets	0
Net Assets — Beginning of Year	0
NET ASSETS — END OF YEAR	\$ 0

See notes to financial statements.

STATEMENT OF CASH FLOWS OF USAC

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

2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from the Federal USF and other vendors	\$ 106,184
Cash paid for operating expenses and employees	(101,362)
Net cash provided by operating activities	4,822
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures	(2,047)
Increase in Cash and Cash Equivalents	2,775
Cash and Cash Equivalents — Beginning of Year	846
CASH AND CASH EQUIVALENTS — END OF YEAR	\$ 3,621
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	\$ 0
<i>Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:</i>	
Depreciation and amortization	6,452
Gain on retirement of fixed assets	(303)
<i>Changes in operating assets and liabilities:</i>	
Decrease in prepaid expense and other current assets	2,856
Increase in other assets	(190)
Increase in assets held for the Federal USF	(172,985)
Decrease in accounts payable and accrued expenses	(3,993)
Increase in liabilities related to assets held for the Federal USF	172,985
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,822

See notes to financial statements.

COMBINING SUPPLEMENTAL SCHEDULE OF ASSETS AND LIABILITIES APPLICABLE TO THE FEDERAL USF

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

	2011					
	SCHOOLS & LIBRARIES	HIGH COST	HIGH COST – BROADBAND	LOW INCOME	RURAL HEALTH CARE	TOTAL USF
ASSETS						
Cash and cash equivalents	\$ (477,168)	\$ 63,206	\$ 485,565	\$ 27,681	\$ 391,664	\$ 490,948
Investments	5,201,875	0	0	0	0	5,201,875
Receivables	675,529	566,111	0	230,135	6,752	1,478,527
Allowance for doubtful accounts	(328,184)	(149,292)	0	(47,345)	(3,442)	(528,263)
Interest receivable	5,988	644	0	335	504	7,471
Assets held for the Federal USF	5,078,040	480,669	485,565	210,806	395,478	6,650,558
Receivable from USAC	(83,192)	79,432	0	25,831	(9,048)	13,023
Receivable from Programs	0	47,000	0	(47,000)	0	0
TOTAL	\$ 4,994,848	\$ 607,101	\$ 485,565	\$ 189,637	\$ 386,430	\$ 6,663,581
LIABILITIES						
Payable to service providers	(20,853)	(50)	0	(3,174)	(1,071)	(25,148)
Accrued liabilities	(11,021)	(362,266)	0	(178,160)	(427)	(551,874)
TOTAL	\$ (31,874)	\$ (362,316)	\$ 0	\$ (181,334)	\$ (1,498)	\$ (577,022)

NOTE — This schedule represents the assets and liabilities applicable to the Federal USF at December 31, 2011, for each of the support programs.

COMBINING SUPPLEMENTAL SCHEDULE OF CHANGES IN NET ASSETS APPLICABLE TO THE FEDERAL USF

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

	2011					
	SCHOOLS & LIBRARIES	HIGH COST	LOW INCOME	RURAL HEALTH CARE	TOTAL USF	
ADDITIONS						
Amounts billed to contributors	\$ 2,246,400	\$ 4,434,568	\$ 1,657,913	\$ 92,770	\$ 8,431,651	
Non-exchange revenues	(4,219)	(8,123)	(4,005)	(163)	(16,510)	
Interest income	13,850	5,836	332	5,158	25,176	
Total additions	2,256,031	4,432,281	1,654,240	97,765	8,440,317	
DEDUCTIONS						
Amount paid and due to service providers	2,108,462	4,012,817	1,748,618	140,709	8,010,606	
Bad debt expenses	148,973	14,926	16,844	319	181,062	
Operating expenses	69,575	15,718	5,178	12,775	103,246	
Unrealized/realized gain or loss	(16,822)	0	0	0	(16,822)	
Total deductions	2,310,188	4,043,461	1,770,640	153,803	8,278,092	
CHANGES IN NET ASSETS	\$ (54,157)	\$ 388,820	\$ (116,400)	\$ (56,038)	\$ 162,225	

NOTE — This schedule represents the changes in net assets applicable to the Federal USF at December 31, 2011, for each of the support programs.

COMBINING SUPPLEMENTAL SCHEDULE OF CASH FLOWS APPLICABLE TO THE FEDERAL USF

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

	2011				
	SCHOOLS & LIBRARIES	HIGH COST	LOW INCOME	RURAL HEALTH CARE	TOTAL USF
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from contributors	\$ 2,016,085	\$ 4,502,877	\$ 1,568,773	\$ 92,327	\$ 8,180,062
Interest received	13,764	5,127	241	4,367	23,499
Cash paid to service providers	(2,109,375)	(4,041,161)	(1,694,516)	(139,807)	(7,984,859)
Cash paid for administrative costs	(69,575)	(15,718)	(5,178)	(12,775)	(103,246)
Interfund Transfers	20,250	(67,250)	47,000	0	0
Net cash provided by (used in) operating activities	(128,851)	383,875	(83,680)	(55,888)	115,456
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investments	6,613,095	0	0	0	6,613,095
Purchase of investments	(6,389,253)	0	0	0	(6,389,253)
Net cash used in investing activities	223,842	0	0	0	223,842
INCREASE (DECREASE) IN CASH EQUIVALENTS	94,991	383,875	(83,680)	(55,888)	339,298
CASH AND CASH EQUIVALENTS					
Beginning of year	(572,159)	164,896	111,361	447,552	151,650
END OF YEAR	\$ (477,168)	\$ 548,771	\$ 27,681	\$ 391,664	\$ 490,948
RECONCILIATION OF CHANGES IN NET ASSETS PROVIDED BY (USED IN) CASH FROM OPERATING ACTIVITIES					
Change in net assets	\$ (54,157)	\$ 388,820	\$ (116,400)	\$ (56,038)	\$ 162,225
<i>Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:</i>					
Bad debt expense	153,192	23,049	20,849	482	197,572
Amortized discount	2,048	0	0	0	2,048
Unrealized/realized gain or loss	(16,822)	0	0	0	(16,822)
<i>Changes in operating assets and liabilities:</i>					
Decrease (increase) in interest receivable	(2,136)	(709)	(91)	(791)	(3,727)
Decrease (increase) in accounts receivable	(230,314)	68,309	(89,140)	(443)	(251,588)
Decrease (increase) in receivable from USAC	0	0	0	0	0
Decrease (increase) in other assets	0	0	0	0	0
Increase (decrease) in liabilities	(912)	(28,344)	54,102	902	25,748
Interfund Transfers	20,250	(67,250)	47,000	0	0
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (128,851)	\$ 383,875	\$ (83,680)	\$ (55,888)	\$ 115,456

NOTE — This schedule represents the cash flows applicable to the Federal USF at December 31, 2011, for each of the support programs.

Report of Independent Auditors



1800 Tysons Boulevard
McLean, VA 22102-4261

Telephone (703) 918 3000
Facsimile (703) 918 3100

To the Board of Directors of Universal Service Administrative Company:

In our opinion, the accompanying statements of financial position and the related statements of operations and change in unrestricted net assets and of cash flows present fairly, in all material respects, the financial position of Universal Service Administrative Company (the “Company”) at December 31, 2010 and December 31, 2009, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2011 on our consideration of the Company’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended December 31, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional supplemental schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the Company’s management. Such schedules have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script, appearing to read 'PricewaterhouseCoopers'.

June 28, 2011
McLean, Virginia

STATEMENTS OF FINANCIAL POSITION OF USAC

As of December 31, 2010 and 2009 | (in thousands)

	2010	2009
ASSETS		
Current Assets		
Cash	\$ 846	\$ 12,891
Receivable from the Federal USF	12,178	0
Prepaid expenses and other current assets	788	729
Assets held for the Federal USF	4,532,867	5,719,279
Total Current Assets	4,546,679	5,732,899
Fixed Assets, less accumulated depreciation and amortization of \$19,215 and \$12,554 held for the Federal USF	11,099	16,460
Other Assets	200	120
Assets held for the Federal USF	1,927,884	478,606
TOTAL	\$ 6,485,862	\$ 6,228,085
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 5,635	\$ 13,969
Advance from the Federal USF	13,024	16,231
Deferred Revenue	6,452	0
Liabilities related to assets held for the Federal USF	4,532,867	5,719,279
Total Current Liabilities	4,557,978	5,749,479
Liabilities related to assets held for the Federal USF	1,927,884	478,606
TOTAL	\$ 6,485,862	\$ 6,228,085
NET ASSETS	\$ 0	\$ 0

STATEMENTS OF OPERATIONS AND CHANGE IN UNRESTRICTED NET ASSETS OF USAC

For the Years Ended December 31, 2010 and 2009 | (in thousands)

	2010	2009
CONTRACT REVENUE	\$ 105,426	\$ 186,665
Operating Expenses		
Contractual expenses	46,577	50,699
Personnel and related expense	27,201	24,016
General and administrative	24,639	107,036
Depreciation, amortization and loss on retirements	7,009	4,914
Total Operating Expenses	105,426	186,665
Change in Net Assets	0	0
Net Assets — Beginning of Year	0	0
NET ASSETS — END OF YEAR	\$ 0	\$ 0

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

STATEMENTS OF CASH FLOWS OF USAC

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

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from the Federal USF and other vendors	\$ 96,492	\$ 196,607
Cash paid for operating expenses and employees	(107,083)	(191,891)
Net cash (used in) provided by operating activities	(10,591)	4,716
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(1,454)	(7,005)
(Decrease) Increase in Cash	(12,045)	(2,289)
Cash — Beginning of Year	12,891	15,180
CASH — END OF YEAR	\$ 846	\$ 12,891
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 0	\$ 0
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>		
Depreciation and amortization	6,966	4,811
Loss on retirement of fixed assets	43	103
<i>Changes in operating assets and liabilities:</i>		
Increase in prepaid expense and other assets	(139)	(383)
(Increase) Decrease in assets held for the Federal USF	(262,866)	123,525
(Increase) Decrease in receivable from the Federal USF	(12,178)	0
Decrease in accounts payable and accrued expenses	(8,528)	(10,141)
(Decrease) Increase in advance from the Federal USF	(3,207)	10,326
Increase in deferred revenue	6,452	0
Increase (Decrease) in liabilities related to assets held for the Federal USF	262,866	(123,525)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ (10,591)	\$ 4,716
<i>Supplemental disclosure of non-cash information:</i>		
Capital expenditures included in accounts payable	\$ 210	\$ 16

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

1 ORGANIZATION AND BASIS OF PRESENTATION

The Universal Service Administrative Company (“USAC” or the “Company”) was incorporated, effective September 17, 1997, as a not-for-profit, independent, wholly-owned subsidiary of the National Exchange Carrier Association, Inc. (“NECA”), and appointed by the Federal Communications Commission (“FCC”) to administer the Universal Service Fund (“USF”) and the universal service support mechanisms. USAC’s Board of Directors consists of independent directors representing a cross-section of stakeholders in the USF and the universal support mechanisms.

The accompanying financial statements have been prepared on the accrual basis of accounting, in conformity with the accounting principles generally accepted in the United States of America. USAC follows the accounting and reporting requirements as set forth in the American Institute of Certified Public Accountants (“AICPA”) Audit and Accounting Guide for Not-for-Profit Entities. The FCC, in its Report and Order in CC Docket Nos. 96-45 and 97-21 (“Universal Service Order”) released May 8, 1997 and November 20, 1998, respectively, determined that USAC should serve as the permanent administrator of the High Cost, Low Income, Rural Health Care, and Schools and Libraries Universal Service Support Mechanisms, collectively referred to herein as the “Programs,” established pursuant to Section 254 of the Communications Act of 1934, as amended.

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

The functions of USAC as the administrator of the USF also include, but are not limited to, development of applications and associated instructions as needed for the Programs,

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

NECA performs data collections functions for the High Cost Program pursuant to FCC rules and bills USAC for the associated costs. NECA is compensated by USAC in accordance with NECA’s Cost Accounting and Procedures Manual. Solix, a wholly-owned subsidiary of NECA, performs services for the Schools and Libraries and Rural Health Care Support Programs. For the years ended December 31, 2010 and 2009, the expense recognized for services rendered by NECA was \$336,797 and \$506,124, respectively, and for the same periods, the expense recognized for services rendered by Solix was \$45.9 million and \$43.5 million, respectively. These expenses are included in contractual expenses in the accompanying Statements of Operations and Change in Unrestricted Net Assets. At December 31, 2010 and 2009, amounts due to NECA was \$45,770 and \$0, respectively, and for the same periods, the amounts due to Solix was \$0 and \$3.1 million.

Funds collected from contributions to the USF by USAC are restricted as to their intended use related to the Programs discussed above. The cash and other financial assets of the USF which USAC administers and acts as an intermediary for, are reported at fair value in the Statements of Financial Position as assets held for the Federal USF, with an equal amount recorded as liabilities related to assets held for the Federal USF, in accordance with accounting standards related to not-for-profit organizations holding contributions for other organizations. In accordance with these accounting standards, activities related to the USF are not presented in USAC’s Statements of Operations and Change in Unrestricted Net Assets and Statements of Cash Flows.

2 SIGNIFICANT ACCOUNTING POLICIES

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

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

Fixed Assets — Fixed assets consist of furniture, equipment, leasehold improvements, computer hardware and software. These assets are carried at cost, net of accumulated depreciation and amortization. Depreciation of furniture and equipment is calculated on a straight-line basis over the seven-year estimated useful lives of those assets. Amortization of leasehold improvements is calculated on a straight-line basis over the shorter of the remaining period of the respective leases or estimated useful lives of the improvements. Depreciation and amortization of hardware and software is calculated on a straight-line basis over the three- to five-year estimated lives of those assets. Depreciation on projects-in-progress does not begin until the asset is placed into service. 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.

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

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

Contract Revenue — USAC, as the administrator of the USF, recognizes contract revenue when services are rendered. Contract revenues are equal to the cost of providing administrative support to the USF and the Programs, and to other FCC fund administrators. Such costs are paid by USF and the other FCC fund administrators to USAC. These transactions are considered exchange transactions in accordance with the AICPA's Audit and Accounting Guide for Not-for-Profit Entities.

The other FCC fund administrators include Telecommunications Relay Services ("TRS"), North American Numbering Plan ("NANP"), and Local Number Portability ("LNP"). USAC invoices these administrators for direct and indirect charges it incurs each month for the data collection and management functions on their behalf. Cash received from the USF in excess of expenses recognized is shown as deferred revenue.

Concentration of Credit Risk — Financial instruments that potentially subject USAC, as the administrator of the USF, to concentration of credit risk consist principally of cash, cash equivalents, short-term and long-term investments, and receivables from contributors. USAC, as the administrator of the USF, places its cash, cash equivalents, and short-term and long-term investments with high-credit quality institutions. USAC maintains its cash and cash equivalents with financial institutions which are federally insured under the Federal Depository Insurance Corporation Act (FDIC). The total deposits at these institutions are generally in excess of federally insured amounts. Deposits

in excess of federally insured amounts are collateralized up to \$620 million by securities which consist primarily of United States Treasury debt securities. USAC has not experienced any losses on its cash and cash equivalents. USAC also has invested USF excess cash in tax-exempt securities that are classified under Assets held for the Federal USF.

3 FIXED ASSETS

Fixed Assets as of December 31, 2010 and 2009 are as follows:

	December 31	
<i>In thousands</i>	2010	2009
FIXED ASSETS		
Office furniture	\$ 1,831	\$ 1,872
Office equipment	312	432
Computer hardware	2,985	2,694
Computer software	23,075	21,673
Leasehold improvements	2,111	1,610
Projects in progress	0	733
Total Fixed Assets	\$ 30,314	\$ 29,014
Less accumulated depreciation and amortization	(19,215)	(12,554)
Net Fixed Assets	\$ 11,099	\$ 16,460

Depreciation and amortization expense was \$6,966 and \$4,811 for the years ended December 31, 2010 and 2009, respectively.

4 ACTIVITIES RELATED TO THE FEDERAL USF

In connection with USAC's administration of the Programs, USAC collects monies from and makes disbursements to telecommunications and service providers, as required by FCC rules, orders, and directives. As discussed in Note 1, the cash and other financial assets of the USF, which USAC administers and acts as an intermediary for, are reported at fair value in the Statements of Financial Position as assets held for the Federal USF, with an equal amount recorded as liabilities related to assets held for the Federal USF. The summary of assets applicable to the USF included below provides additional detail with respect to these amounts.

	December 31	
<i>In thousands</i>	2010	2009
Cash and cash equivalents	\$ 151,650	\$ 29,720
Investments	5,414,315	5,460,179
Accounts receivable	1,226,519	982,505
Allowance for doubtful accounts	(335,477)	(277,618)
Interest receivable	3,744	3,099
Total Current Assets and Long Term Investments held for the Federal USF	\$ 6,460,751	\$ 6,197,885
Fixed Assets Held for Federal USF	11,099	16,460
Total Assets Held for Federal USF	\$ 6,471,850	\$ 6,214,345

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

Short-Term Investments — USAC, as the administrator of the USF, considers all securities purchased with an original maturity of greater than three months and a current maturity of less than or equal to one year to be short-term investments. Short-term investments consist solely of United States Treasury securities with readily determinable fair values. USAC, as the administrator of the USF, accounts for its investments in accordance with investment accounting standards for not-for-profit organizations. At December 31, 2010 and 2009, there were \$3.49 billion and \$4.98 billion in short-term investments, respectively.

Long-Term Investments — USAC, as the administrator of the USF, considers all securities purchased with a current maturity of greater than one year to be long-term investments. These investments are accounted for in accordance with fair value measurement accounting standards. Long-term investments consist primarily of United States Treasury debt securities with readily determinable fair values. At December 31, 2010 and 2009, the USF had \$1.93 billion and \$478.6 million of long-term investments, respectively.

Accounts Receivable and Allowance for Doubtful Accounts — USAC, as the administrator of the USF, recognizes accounts receivable arising from amounts billed to contributors and the recovery of funds from service providers and beneficiaries, which remain unpaid. Accounts receivable are recorded at invoiced amounts and generally do not bear interest. Based on the Debt Collection Improvement Act (“DCIA”), all receivables over 90-days delinquent are transferred to the FCC for collection, except for receivables where the debtor has appealed the validity of the amount owed or the debtor has sought protection under Chapter 7 or 11 of the United States Bankruptcy Code. The DCIA receivable balances transferred to the FCC remain as USF receivables. All receipts of DCIA transferred receivables are the property of the USF fund and, if collected, are transferred to the USF by the FCC.

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

Gross receivables are reduced to net realizable value by the allowance for doubtful accounts, which reflects the Company’s estimate of exposure to risk of nonpayment of billed balances, determined principally on the basis of its collection experience. The allowance includes reserves for identified bankruptcies, identified inactive contributors, delinquent amounts that are referred to the FCC for enforcement, and other items. Management periodically reviews such estimates and management’s assessment of recoverability may change based on actual results.

Accounts receivable write-offs are periodically submitted by USAC to the FCC. Generally, each account has been outstanding more than five years prior to write-off consideration. USF write-off policy is determined based on the FCC Policies and Procedures Manual, Chapter 4: Accounts Receivable and Revenues, Section 360: Cancellation, Termination, Write-Off and Close-out Policy of Delinquent Debt. The Commission’s

authority to write-off is set forth in 31 U.S.C. § 3711, and 31 C.F.R. Parts 902-904, Federal Claims Collection Standards (“FCCS”).

Accounting Policy Change — In 2010, USAC changed its methodology of billing for expenditures made on behalf of the USF. USAC bills the USF on a monthly basis based upon net cash disbursements. The previous billing methodology was based upon expenses recognized for the period. As a result of this billing change, deferred revenue of \$6,452 was recorded. USAC also reclassified \$16,231 of Payable to the Federal USF to Advance from the Federal USF to conform to the current year presentation.

5 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

The following table summarizes the valuation of the investments according to the fair value measurement classifications as of December 31, 2009:

<i>In thousands</i>	US Treasuries
Total	\$ 5,460,179
Active Markets for Identical Assets (Level 1)	\$ 5,460,179
Observable Inputs (Level 2)	\$ 0
Unobservable Inputs (Level 3)	\$ 0

6 INCOME TAXES

USAC is a not-for-profit organization subject to income taxes that arise from the permanent and temporary differences between financial and tax accounting related to meals and entertainment expense, compensated absences and depreciation. Income taxes for 2010 and 2009 are not material and are included as a component of administrative costs.

7 COMMITMENTS AND CONTINGENCIES

Fixed Contract Commitments

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

Solix Agreement — Solix provides programmatic support service and operational support transition assistance for the Schools and Libraries and Rural Health Care Programs. On March 30, 2010, USAC signed a contract extension with Solix for a period of one year or until June 30, 2011. The future contractual required payments for the period January 1, 2011 through June 30, 2011, under the Agreement for both the Schools and Libraries and Rural Health Care Programs total \$23.3 million.

SAIC Agreement — On January 2, 2008, USAC entered into an agreement with the Science Applications International Corporation (“SAIC Agreement”). The SAIC Agreement is a five-year contract which runs from January 1, 2008 to December 31, 2012. Under the terms of the SAIC Agreement, SAIC provides information technology support services to USAC and upgrade and transition support for hardware, software, and related customer

support. The future contractual required payments under the SAIC Agreement for the period January 1, 2011 through December 31, 2012, are \$12.1 million.

Lease Commitments

USAC leases its office space under an operating lease agreement expiring on September 30, 2015. At December 31, 2010, the future minimal rental payments under these leases are as follows (in thousands):

2011	\$ 2,475
2012	2,509
2013	2,564
2014	2,631
2015	2,032
Total	\$ 12,211

Rent expense under operating leases was \$2.4 million and \$2.1 million for the years ended December 31, 2010 and 2009, respectively.

Legal Dispute

The Company is involved in various legal proceedings and claims incidental to the normal conduct of its business. The Company reports matters herein where the value of a claim asserted by or against the Company exceeds \$400,000 or more for an individual matter, or for matters relating to the same plaintiff or defendant that in the aggregate amount to \$400,000 or more. The Company reports the following matters:

- A complaint was filed against the Company on April 27, 2007 by a telecommunications carrier (plaintiff) alleging the Company failed to pay High Cost Support Mechanism benefits in the amount of \$900,000 to plaintiff following the acquisition of certain exchanges by plaintiff from another carrier. On October 15, 2007, the court stayed the action indefinitely on the grounds that the Federal Communications Commission (FCC) has primary jurisdiction to decide the issues raised in the complaint. On February 2, 2010, the FCC released an order (FCC 10-26), effectively ruling against plaintiff

in its appeal to the FCC. On February 11, 2010, the court dismissed plaintiff’s complaint against the Company for failure to exhaust administrative remedies and because primary jurisdiction lies with the FCC.

- A complaint was filed against the Company on December 28, 2007 by a Schools and Libraries Support Mechanism service provider (plaintiff) in Texas alleging the Company failed to make payments on approved funding requests for a support mechanism applicant. Plaintiff seeks to recover liquidated damages of approximately \$778,000 plus exemplary damages of three times this amount. On September 22, 2008, the United States District Court for the Southern District of Texas dismissed plaintiff’s claim with prejudice. Plaintiff appealed the district court’s decision to the United States Court of Appeals for the Fifth Circuit. The court has not yet issued a decision. In addition, plaintiff appealed the Company’s decision to withhold program funding to the Federal Communications Commission pursuant to 47 C.F.R. § 54.719. On August 28, 2009, the FCC Wireline Competition Bureau (Bureau) released an order (DA 09-1946) affirming the Company’s decision and directing plaintiff and the Company to take certain actions toward resolving the matter. Plaintiff then filed a Petition for Reconsideration of a portion of the Bureau’s decision with the Commission on September 27, 2009. On July 1, 2010, the Deputy Chief of the Bureau released an order (DA 10-1244) denying Plaintiff’s petition for reconsideration of the Bureau’s August 28, 2009 decision. On July 30, 2010, Plaintiff filed a petition requesting that the Commission reverse the Bureau’s July 1, 2010 order. Plaintiff’s petition is pending before the Commission. The Fifth Circuit Court of Appeals has not yet ruled on Plaintiff’s appeal. At the present time the Company is unable to estimate whether an unfavorable outcome is likely in the matter pending before the court and/or the Commission or the amount of potential loss, if any.

- A complaint was filed against the Company on January 2, 2008 by a Schools and Libraries Support Mechanism service provider (plaintiff) in Kentucky alleging that the Company interfered with plaintiff's contractual relationships with three separate school districts. Plaintiff has not specified the amount of damages it is seeking to recover. On June 6, 2008, the United States District Court for the Southern District of Kentucky dismissed the plaintiff's complaint. Plaintiff is also pursuing this matter through the administrative appeals process at the Federal Communications Commission. At the present time, the Company is unable to estimate whether an unfavorable outcome is likely or the amount of potential loss, if any.
- A complaint was filed on March 3, 2009 by a Schools and Libraries Support Mechanism service provider (plaintiff) in Massachusetts federal district court against the Company alleging improper denial of certain funding requests and initiation of recoveries of funds previously paid to plaintiff. Plaintiff asked the court to determine that it did not violate Schools and Libraries Program rules, direct the Company to pay over \$6.4 million of funding requests plus interest and penalties, and find that the Company interfered with plaintiff's business relationship with certain school districts. The court granted the Company's motion to dismiss the action without prejudice on October 20, 2009. On November 30, 2009, plaintiff appealed the judgment to the United States Court of Appeals for the First Circuit. On January 6, 2010, plaintiff's counsel filed a motion with the court to withdraw as counsel, which the court granted. Plaintiff failed to retain counsel to represent it in its appeal to the First Circuit court by the court mandated deadline, and, at the request of plaintiff, the First Circuit court dismissed plaintiff's appeal on May 26, 2010. Presently, to the Company's knowledge, plaintiff has no action pending against the Company in any court. In addition, on April 26, 2010, the Company denied all appeals of funding denials Plaintiff had filed with USAC. Plaintiff had until June 25, 2010 to appeal these decisions to the FCC. At the present time, the Company has not been notified by the FCC or plaintiff as to whether plaintiff filed appeals with the FCC.
- A complaint was filed against the Company on November 7, 2009, by the Chapter 7 bankruptcy trustee for a Schools and Libraries Support Mechanism service provider (plaintiff) in federal bankruptcy court in Texas demanding turnover of \$20,112,899 in program funds frozen due to allegations of fraud involving service providers in the Houston and Dallas Independent School Districts. The Company filed a motion to dismiss the action or, in the alternative, remove the action from the bankruptcy court to the overseeing federal district court. The bankruptcy court held a hearing on this matter on March 19, 2010. On April 5, 2010, the bankruptcy court issued a report and recommendation to the overseeing federal district court that the matter be removed from the bankruptcy court, as requested by the Company. The bankruptcy court did not rule on the Company's motion to dismiss, which will now be decided by the district court. On December 3, 2010, the parties agreed to suspend the litigation for six months to provide the Company an opportunity to review and approve or deny payments of outstanding invoices submitted by plaintiff for services provided to the Houston and Dallas school districts. The invoice reviews may take longer than this period of time, in which case, the parties may or may not agree to further suspend the litigation. At the conclusion of the Company's review, plaintiff may or may not resume the litigation. At the present time, the Company is unable to estimate whether an unfavorable outcome is likely or the amount of potential loss. In addition, the United States Department of Justice has filed a related \$20 million claim against plaintiff for violations of the federal False Claims Act.
- On October 26, 2009, a telecommunications carrier and its related entities (collectively, plaintiff) filed a Chapter 11 bankruptcy petition. On December 21, 2009, the Company filed claims in the bankruptcy proceeding against plaintiff for High Cost Program support payments made to plaintiff identified through audits as improper payments due to plaintiff's failure to comply with program rules. These claims total approximately \$3 million. Plaintiff then filed nine appeals with the Company of the audit findings covering 13 entities. On June 15, 2010, plaintiff filed a motion for estimation with the bankruptcy court seeking to effectively preempt the appeals process established by the FCC in 47 C.F.R. § 54.719 by having the court decide the proper amount of audit recoveries that should be allowed to the Company, which plaintiff believes should be \$0. The Company argued in its response to plaintiff's motion that the regulatory scheme for processing and deciding appeals was established by the FCC, which should have primary jurisdiction to interpret its rules and determine the validity of plaintiff's appeals. The bankruptcy court judge held a conference in chambers on October 25, 2010 rather than a hearing on plaintiff's motion, which had been scheduled for the same date. In chambers, the judge ordered the Company and plaintiff to engage in non-binding mediation in an attempt to settle this matter. The mediation occurred on December 16, 2010. During the mediation, the parties agreed that plaintiff would have an opportunity to supplement one of its open, undecided appeals with additional information it claims to be relevant to the issues on appeal. The parties met at the Company's offices on January 13, 2011 to review the additional information plaintiff claims is relevant to the appeal. Plaintiff will also submit to the Company supplemental information concerning the one appeal by February 14, 2011. The Company has agreed to decide the appeal of this audit as soon as possible after plaintiff submits the information on February 14. Once the Company decides the appeal, plaintiff will then have 30 days to decide whether it wishes to withdraw its motion for estimation

and have the Company, and then the FCC, if appropriate, decide its appeals. At the present time the Company is unable to estimate whether an unfavorable outcome is likely in the matter pending before the court and/or the Commission (should plaintiff appeal one or more of any the Company's decisions to the FCC) or the amount of potential loss, if any.

- On March 9, 2001, a telecommunications carrier (plaintiff) filed a Chapter 11 bankruptcy petition. At that time, the National Exchange Carrier Association (NECA) was processing USF contributor collections, including contributor bankruptcy matters, on behalf of the Company. NECA filed on behalf of the Company a prepetition claim for approximately \$5.75 million in USF contribution obligations owed by plaintiff. On May 1, 2002, plaintiff filed an objection stating that the claim should be reduced to approximately \$2.53 million. A notice of hearing on the motion was served on NECA. However, on July 1, 2001, the Company transferred processing of USF contribution matters to a third party. NECA claims that it sent a notice to the bankruptcy court of the change in processing agent and the corresponding change in address for receiving notices. However, the court claims to have not received this notice, and the Company was not notified of plaintiff's objection or given an opportunity to respond. The claim was

reduced by the court to the approximately \$2.53 million amount requested by plaintiff given that the Company failed to appear to contest the motion. The Company learned of actions in the case in September 2003 as a result of Company counsel generally checking on the status of cases directly with the court. The Company requested that plaintiff consent to reopen the matter given what appears to be a mistake by the court in not processing the change of address sent by NECA. Plaintiff would not consent, and in May 2004 the Company appealed the matter to the United States District Court that oversees the bankruptcy court. On September 28, 2010, the court denied the Company's motion. The Company appealed the court's decision to the United States Court of Appeals for the Second Circuit on November 12, 2010. At the present time, the Company is unable to estimate whether an unfavorable outcome is likely or the amount of potential recovery, if any.

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

8 RETIREMENT PLANS

USAC has a 401(k) Retirement Savings Plan covering all USAC regular employees. The plan is both contributory and noncontributory and all contributions are subject to certain limitations as prescribed by the plan document and government regulations. Employees are immediately vested in the employer contribution, which is funded on a current basis. Employer contributions charged to operations were \$2.2 million and \$1.9 million during 2010 and 2009, respectively.

9 SUBSEQUENT EVENTS

USAC has performed an evaluation of subsequent events through April 15, 2011, which is the date the financial statements were available to be issued.

Solix Agreement – On March 23, 2011, USAC notified Solix that it would extend its contract for a period of one year or until June 30, 2012, as provided for under the terms of the Agreement. The future contractual required payments for the period July 1, 2011 through June 30, 2012, under the Agreement for both the Schools and Libraries and Rural Health Care Programs total \$45.6 million.

COMBINING SUPPLEMENTAL SCHEDULES OF ASSETS AND LIABILITIES APPLICABLE TO THE FEDERAL USF

As of December 31, 2010 and 2009 | (Unaudited – in thousands)

	2010						2009				
	SCHOOLS & LIBRARIES	HIGH COST	HIGH COST – BROADBAND	LOW INCOME	RURAL HEALTH CARE	TOTAL USF	SCHOOLS & LIBRARIES	HIGH COST	LOW INCOME	RURAL HEALTH CARE	TOTAL USF
ASSETS											
Cash and cash equivalents	\$ (500,578)	\$ 19,583	\$ 85,177	\$ 86,371	\$ 461,097	\$ 151,650	\$ (515,556)	\$ 130,853	\$ 16,617	\$ 397,806	\$ 29,720
Investments & CMV Adj	5,414,315	0	0	0	0	5,414,315	5,460,179	0	0	0	5,460,179
Receivables	439,877	642,747	0	138,373	5,521	1,226,518	379,723	465,561	124,951	15,270	982,505
Allowance for doubtful accounts	(181,165)	(124,355)	0	(25,037)	(2,920)	(335,477)	(136,674)	(116,797)	(21,553)	(2,594)	(277,618)
Interest receivable	3,852	(65)	0	244	(287)	3,744	3,173	(71)	295	(298)	3,099
Assets held for the Federal USF	5,174,301	537,910	85,177	199,951	463,411	6,460,750	5,128,588	479,546	120,310	410,184	6,197,885
Receivable from USAC	(83,192)	79,432	0	25,831	(9,048)	13,023	(59,257)	61,407	18,079	(4,404)	15,825
TOTAL	\$ 5,091,109	\$ 617,342	\$ 85,177	\$ 225,782	\$ 454,363	\$ 6,473,773	\$ 5,128,588	\$ 540,953	\$ 138,389	\$ 405,780	\$ 6,213,710
LIABILITIES											
Payable to service providers	\$ (30,256)	\$ (1,007)	\$ 0	\$ (233)	\$ (142)	\$ (31,638)	\$ (14,490)	\$ (6,419)	\$ (561)	\$ (12)	\$ (21,482)
Payable to contributors	(9,232)	(385,404)	0	(124,697)	(276)	(519,609)	(13,348)	(23,450)	(6,949)	(1,204)	(44,951)
Accrued liabilities	0	0	0	0	0	0	0	(388,317)	(100,797)	0	(489,114)
Unearned revenue	0	0	0	0	0	0	(3)	(4)	(1)	0	(8)
TOTAL	\$ (39,488)	\$ (386,411)	\$ 0	\$ (124,930)	\$ (418)	\$ (551,247)	\$ (27,841)	\$ (418,190)	\$ (108,308)	\$ (1,216)	\$ (555,555)

NOTE — This schedule represents the assets and liabilities of the Federal USF at December 31, 2010 and 2009, for each of the support programs.

COMBINING SUPPLEMENTAL SCHEDULES OF CHANGES IN NET ASSETS APPLICABLE TO THE FEDERAL USF

For the Years Ended December 31, 2010 and 2009 | (Unaudited – in thousands)

	2010					2009				
	SCHOOLS & LIBRARIES	HIGH COST	LOW INCOME	RURAL HEALTH CARE	TOTAL USF	SCHOOLS & LIBRARIES	HIGH COST	LOW INCOME	RURAL HEALTH CARE	TOTAL USF
ADDITIONS										
Amounts billed to contributors	\$ 2,257,890	\$ 4,493,582	\$ 1,395,617	\$ 164,349	\$ 8,311,438	\$ 2,121,480	\$ 4,072,749	\$ 903,729	\$ 204,658	\$ 7,302,616
Interest income	15,165	485	407	1,832	17,889	27,725	1,870	680	1,930	32,205
Total additions	2,273,055	4,494,067	1,396,024	166,181	8,329,327	2,149,205	4,074,619	904,409	206,588	7,334,821
DEDUCTIONS										
Amount paid and due to service providers	2,228,543	4,261,146	1,313,124	109,831	7,912,644	1,891,517	4,276,300	1,029,393	72,693	7,269,903
Bad debt expenses	46,491	7,558	3,484	326	57,859	(7,477)	1,880	132	113	(5,352)
Operating expenses	67,841	25,542	6,585	11,751	111,719	121,123	57,471	3,565	8,336	190,495
Unrealized/realized gain or loss	(3,349)	0	0	0	(3,349)	(1,043)	0	0	0	(1,403)
Total deductions	2,339,526	4,294,246	1,323,193	121,908	8,078,873	2,004,120	4,335,651	1,033,090	81,142	7,454,003
CHANGES IN NET ASSETS	\$ (66,471)	\$ 199,821	\$ 72,831	\$ 44,273	\$ 250,454	\$ 145,085	\$ (261,032)	\$ (128,681)	\$ 125,446	\$ (119,182)

NOTE — This schedule represents the changes in net assets of the Federal USF at December 31, 2010 and 2009, for each of the support programs.

COMBINING SUPPLEMENTAL SCHEDULE OF CASH FLOWS APPLICABLE TO THE FEDERAL USF

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

	2010				
	SCHOOLS & LIBRARIES	HIGH COST	LOW INCOME	RURAL HEALTH CARE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from contributors	\$ 2,194,736	\$ 4,316,397	\$ 1,381,776	\$ 174,097	\$ 8,067,006
Interest paid	20,490	480	457	1,822	23,249
Cash paid to service providers	(2,216,896)	(4,292,926)	(1,296,503)	(110,629)	(7,916,954)
Cash paid for administrative costs	(43,906)	(43,567)	(13,917)	(7,107)	(108,497)
Net cash provided by (used in) operating activities	(45,576)	(19,616)	71,813	58,183	64,804
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investments	11,126,448	0	0	0	11,129,183
Purchase of investments	(11,069,322)	0	0	0	(11,069,322)
Net cash used in investing activities	57,126	0	0	0	57,126
INCREASE (DECREASE) IN CASH EQUIVALENTS	11,550	(19,616)	71,813	58,183	121,930
CASH AND CASH EQUIVALENTS					
Beginning of year	(514,140)	181,923	(31,724)	393,661	29,720
END OF YEAR	\$ (502,591)	\$ 162,307	\$ 40,089	\$ 451,845	\$ 151,650
RECONCILIATION OF CHANGES IN NET ASSETS PROVIDED BY (USED IN) CASH FROM OPERATING ACTIVITIES					
Change in net assets	\$ (66,471)	\$ 199,821	\$ 72,831	\$ 44,273	\$ 250,454
<i>Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:</i>					
Bad debt expense	46,491	7,559	3,483	326	57,859
Amortized discount	6,004	0	0	0	6,004
Unrealized/realized gain or loss	(3,349)	0	0	0	(3,349)
<i>Changes in operating assets and liabilities:</i>					
Decrease (increase) in interest receivable	(679)	(6)	51	(11)	(645)
Decrease (increase) in accounts receivable	(63,154)	(177,186)	(13,422)	9,749	(244,013)
Decrease (increase) in receivable from USAC	23,935	(18,025)	(7,752)	4,644	2,802
Decrease (increase) in other assets	0	0	0	0	0
Increase (decrease) in liabilities	11,647	(31,779)	16,622	(798)	(4,308)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (45,576)	\$ (19,616)	\$ 71,813	\$ 58,183	\$ 64,804

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

COMBINING SUPPLEMENTAL SCHEDULE OF CASH FLOWS APPLICABLE TO THE FEDERAL USF

For the Year Ended December 31, 2009 | (Unaudited – in thousands)

	2009				
	SCHOOLS & LIBRARIES	HIGH COST	LOW INCOME	RURAL HEALTH CARE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from contributors	\$ 2,128,794	\$ 4,138,083	\$ 870,707	\$ 205,460	\$ 7,343,044
Interest paid	43,013	1,882	706	1,956	47,557
Cash paid to service providers	(1,892,901)	(4,295,017)	(993,432)	(71,730)	(7,253,080)
Cash paid for administrative costs	(76,781)	(95,881)	(17,358)	(6,700)	(196,720)
Net cash provided by (used in) operating activities	202,125	(250,933)	(139,377)	128,986	(59,199)
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investments	11,110,257	0	0	0	11,110,257
Purchase of investments	(11,074,748)	0	0	0	(11,074,748)
Net cash used in investing activities	35,509	0	0	0	35,509
INCREASE (DECREASE) IN CASH EQUIVALENTS	237,634	(250,933)	(139,377)	128,986	(23,690)
CASH AND CASH EQUIVALENTS					
Beginning of year	(751,774)	432,856	107,653	264,675	53,410
END OF YEAR	\$ (514,140)	\$ 181,923	\$ (31,724)	\$ 393,661	\$ 29,720
RECONCILIATION OF CHANGES IN NET ASSETS PROVIDED BY (USED IN) CASH FROM OPERATING ACTIVITIES					
Change in net assets	\$ 145,085	\$ (261,032)	\$ (128,681)	\$ 125,446	\$ (119,182)
<i>Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:</i>					
Bad debt expense	(7,477)	1,880	132	113	(5,352)
Amortized discount	14,842	0	0	0	14,842
Unrealized/realized gain or loss	(1,043)	0	0	0	(1,043)
<i>Changes in operating assets and liabilities:</i>					
Decrease (increase) in interest receivable	446	12	26	26	510
Decrease (increase) in accounts receivable	7,314	65,334	(33,022)	802	40,428
Decrease (increase) in receivable from USAC	44,342	(38,410)	(13,793)	1,636	(6,225)
Decrease (increase) in other assets	0	0	0	0	0
Increase (decrease) in liabilities	(1,384)	(18,717)	35,961	963	16,823
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 202,125	\$ (250,933)	\$ (139,377)	\$ 128,986	\$ (59,199)

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

Report of Independent Auditors

on Internal Control Over
Financial Reporting and
on Compliance and Other
Matters Based on an Audit
of Financial Statements
Performed in Accordance
with *Government Auditing
Standards*



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To the Board of Directors of Universal Service Administrative Company:

We have audited the financial statements of Universal Service Administrative Company (the "Company") as of and for the year ended December 31, 2010, and have issued our report thereon dated June 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

Observation

Through our testing of the USF allowance for doubtful accounts, we noted that management applied the incorrect reserve rate to accounts receivable balances associated with inactive filers. Also, this rate was based on incorrect underlying data that was used in the calculation. The rate applied at December 31, 2010 was 28% which resulted in an allowance recorded of \$3.3 million on a balance of \$11.8 million in accounts receivable. The correct rate was 68% which resulted in an allowance of \$8.0 million.

Recommendation

We recommend that management ensure proper review processes are in place so that inaccuracies or miscalculations are timely detected prior to recording the resulting transactions in the financial statements. We also recommend that management validate the data and review the assumptions impacting the calculation of the reserve rates to ensure that the information is accurate.

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

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

The following is a summary of the status of prior year recommendations communicated in our report dated June 30, 2010:

RECOMMENDATION	AUDIT AREA CONDITION	STATUS
We recommend that management strengthen their review procedures at period end to ensure all liabilities are appropriately recorded in the correct accounting period and all required journal entries are recorded when an invoice is received.	Enhance policies and procedures over completeness of accrued liabilities	Remediated
We recommend that management enhance their review of balance sheet and income statement accounts on a monthly basis to ensure all significant transactions have been included and are appropriately accounted for and all components of the reconciliation can be supported by relevant information.	Enhance controls over completion of fixed assets reconciliation and accuracy of supporting schedules	Remediated

Compliance and Other Matters

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

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

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



June 28, 2011
McLean, Virginia

2011 Universal Service Program Statistics

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

FUNDING YEAR

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

CALENDAR YEAR

The High Cost and Low Income Programs disburse funds on a Calendar Year basis. Data in these tables are for Calendar Year 2011.

APPROVED DISBURSEMENTS

Approved disbursement totals represent support for the months of January through December 2011 for the High Cost and Low Income Programs. Approved disbursement totals represent support authorized during the months of January through December 2011 for the Rural Health Care and Schools and Libraries Programs. Final disbursement totals might change because of subsequent administrative actions related to approved disbursements. Disbursement data in the Calendar Year tables may represent multiple funding years in the Rural Health Care and Schools and Libraries Programs.

FUNDING COMMITMENTS

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

Commitments made in Calendar Year 2011 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 2011 commitment data and Funding Year 2011 commitment data for program applicants.

Rural Health Care and Schools and Libraries Program Funding Years

Funding Years	Start Date	End Date
Funding Year 2009 (FY2009)	July 1, 2009	June 30, 2010
Funding Year 2010 (FY2010)	July 1, 2010	June 30, 2011
Funding Year 2011 (FY2011)	July 1, 2011	June 30, 2012

2011 APPROVED DISBURSEMENTS BY PROGRAM

(Unaudited – in thousands)



HIGH COST PROGRAM

Approved Disbursements by Component, 2011 | (Unaudited – in thousands)

State	High Cost Loop	High Cost Model	Interstate Access Support	Interstate Common Line Support	Local Switching Support	Total 2011	Total 1998-2011
Alabama	\$16,122	\$31,917	\$16,743	\$20,468	\$5,091	\$90,341	\$1,278,751
Alaska	78,910	0	0	96,648	26,959	202,518	1,727,780
American Samoa	4	0	0	1,225	585	1,813	28,029
Arizona	30,402	0	15,415	17,036	8,439	71,292	869,789
Arkansas	37,122	0	242	45,914	6,203	89,481	1,540,790
California	24,704	0	35,100	26,949	3,834	90,587	1,223,471
Colorado	27,210	0	17,127	22,175	4,477	70,990	976,475
Connecticut	0	0	452	0	0	453	16,645
Delaware	0	0	221	0	0	221	6,405
District of Columbia	0	0	0	0	0	0	0
Florida	3,912	0	38,258	9,826	2,712	54,708	952,847
Georgia	35,506	0	17,421	49,077	9,267	111,272	1,482,339
Guam	886	0	0	18,103	1,048	20,037	138,976
Hawaii	33,801	0	2,332	21,486	3,353	60,971	406,841
Idaho	19,481	0	10,842	13,700	5,637	49,662	661,454
Illinois	18,416	0	9,297	30,258	7,162	65,133	766,742
Indiana	31,602	0	14,330	27,655	4,828	78,417	758,937
Iowa	41,213	0	7,873	60,878	19,941	129,905	1,156,690
Kansas	108,897	0	5,634	67,838	8,311	190,681	2,034,270
Kentucky	32,882	14,350	15,858	32,654	5,423	101,168	989,088
Louisiana	62,233	0	12,234	36,067	3,925	114,460	1,536,084
Maine	4,108	1,639	17	17,508	6,731	30,004	409,255
Maryland	5	0	2,246	824	274	3,351	47,319
Massachusetts	41	0	1,434	166	446	2,088	61,641
Michigan	13,192	0	378	21,276	7,265	42,111	686,964
Minnesota	32,846	0	2,352	50,992	12,692	98,883	1,252,071
Mississippi	27,420	173,672	22,482	19,187	2,912	245,674	2,702,839
Missouri	46,650	0	10,263	36,671	4,480	98,065	1,201,741
Montana	37,335	10,447	715	33,562	5,958	88,018	954,218
Nebraska	32,002	5,906	6,146	32,499	13,796	90,350	867,283
Nevada	5,702	0	7,210	4,266	3,462	20,640	331,462
New Hampshire	429	0	1,428	4,447	3,076	9,381	132,595
New Jersey	1	0	252	428	819	1,501	29,799
New Mexico	38,241	0	9,139	26,054	8,434	81,869	785,887
New York	5,614	0	11,702	13,569	10,829	41,715	680,355
North Carolina	6,546	0	22,622	34,195	5,106	68,469	901,643
North Dakota	41,751	0	616	44,900	9,720	96,987	849,954
Northern Mariana Islands	0	0	259	0	2,646	2,905	33,481
Ohio	8,280	0	9,111	12,630	2,937	32,959	460,666
Oklahoma	69,376	0	3,788	56,765	14,514	144,443	1,509,340
Oregon	26,544	0	15,499	28,370	5,528	75,941	925,324
Pennsylvania	960	0	18,027	40,786	6,471	66,245	691,848
Puerto Rico	0	0	0	165,376	0	165,376	1,899,892
Rhode Island	0	0	29	0	0	29	520
South Carolina	44,127	0	8,541	51,084	7,978	111,731	1,074,272
South Dakota	31,246	1,218	68	27,076	5,248	64,856	828,159
Tennessee	17,830	0	8,468	32,107	5,001	63,407	686,578
Texas	116,918	0	35,048	81,549	13,496	247,012	2,895,885
Utah	5,679	0	1,974	11,394	3,242	22,290	270,408
Vermont	1,593	5,525	1,863	5,762	3,554	18,298	344,761
Virgin Islands	3,744	0	0	15,200	0	18,944	323,197
Virginia	2,848	0	52,954	10,153	3,547	69,503	889,040
Washington	13,158	0	24,086	37,110	6,745	81,100	1,104,838
West Virginia	1,603	26,267	19,798	3,638	1,731	53,037	842,614
Wisconsin	39,895	0	102	76,427	19,806	136,230	1,438,372
Wyoming	11,611	9,014	3,789	15,143	4,189	43,746	638,161
TOTAL	\$1,290,600	\$279,956	\$521,811	\$1,609,072	\$329,828	\$4,031,268	\$47,304,809

NOTE — Numbers may not add due to rounding.

HIGH COST PROGRAM

Approved Disbursements by Rural v. Non-Rural, 2011 | (Unaudited – *in thousands*)

State	Rural	Non-Rural	Total 2011
Alabama	\$42,340	\$48,000	\$90,341
Alaska	189,900	12,617	202,518
American Samoa	1,813	0	1,813
Arizona	61,469	9,824	71,292
Arkansas	89,238	243	89,481
California	60,050	30,538	90,587
Colorado	53,897	17,093	70,990
Connecticut	0	453	453
Delaware	0	221	221
District of Columbia	0	0	0
Florida	31,578	23,130	54,708
Georgia	94,081	17,191	111,272
Guam	20,037	0	20,037
Hawaii	58,639	2,332	60,971
Idaho	49,662	0	49,662
Illinois	57,649	7,484	65,133
Indiana	66,839	11,577	78,417
Iowa	129,388	517	129,905
Kansas	189,664	1,017	190,681
Kentucky	71,667	29,501	101,168
Louisiana	102,225	12,235	114,460
Maine	28,348	1,656	30,004
Maryland	1,104	2,247	3,351
Massachusetts	654	1,435	2,088
Michigan	41,758	353	42,111
Minnesota	98,888	(6)	98,883
Mississippi	49,519	196,155	245,674
Missouri	93,961	4,104	98,065
Montana	77,208	10,811	88,018
Nebraska	79,772	10,579	90,350
Nevada	15,618	5,022	20,640
New Hampshire	7,952	1,429	9,381
New Jersey	1,501	0	1,501
New Mexico	76,700	5,169	81,869
New York	35,053	6,662	41,715
North Carolina	56,540	11,930	68,469
North Dakota	96,371	616	96,987
Northern Mariana Islands	2,905	0	2,905
Ohio	27,667	5,292	32,959
Oklahoma	141,264	3,180	144,443
Oregon	62,774	13,167	75,941
Pennsylvania	56,326	9,919	66,245
Puerto Rico	0	165,376	165,376
Rhode Island	0	29	29
South Carolina	104,947	6,784	111,731
South Dakota	63,569	1,287	64,856
Tennessee	57,124	6,284	63,407
Texas	221,586	25,426	247,012
Utah	21,366	924	22,290
Vermont	10,909	7,388	18,298
Virgin Islands	18,944	0	18,944
Virginia	29,411	40,092	69,503
Washington	60,004	21,096	81,100
West Virginia	14,817	38,220	53,037
Wisconsin	136,230	0	136,230
Wyoming	31,282	12,465	43,746
TOTAL	\$3,192,205	\$839,063	\$4,031,268

NOTE — Numbers may not add due to rounding.

HIGH COST PROGRAM

Approved Disbursements by Incumbent v. Competitive ETC, 2011 | (Unaudited – *in thousands*)

State	Incumbent ETC	Competitive ETC	Total 2011
Alabama	\$77,254	\$13,086	\$90,341
Alaska	85,990	116,528	202,518
American Samoa	844	969	1,813
Arizona	61,260	10,032	71,292
Arkansas	73,325	16,156	89,481
California	90,508	79	90,587
Colorado	61,342	9,647	70,990
Connecticut	453	0	453
Delaware	221	0	221
District of Columbia	0	0	0
Florida	50,984	3,724	54,708
Georgia	93,776	17,496	111,272
Guam	6,030	14,006	20,037
Hawaii	27,046	33,926	60,971
Idaho	41,276	8,386	49,662
Illinois	50,515	14,618	65,133
Indiana	78,181	236	78,417
Iowa	77,199	52,706	129,905
Kansas	139,661	51,020	190,681
Kentucky	73,305	27,863	101,168
Louisiana	75,862	38,598	114,460
Maine	18,441	11,563	30,004
Maryland	3,351	0	3,351
Massachusetts	2,088	0	2,088
Michigan	30,276	11,835	42,111
Minnesota	83,360	15,523	98,883
Mississippi	102,088	143,586	245,674
Missouri	85,391	12,674	98,065
Montana	75,273	12,745	88,018
Nebraska	58,245	32,105	90,350
Nevada	20,780	(139)	20,640
New Hampshire	9,170	210	9,381
New Jersey	1,501	0	1,501
New Mexico	61,673	20,197	81,869
New York	38,588	3,127	41,715
North Carolina	61,607	6,863	68,469
North Dakota	59,404	37,583	96,987
Northern Mariana Islands	687	2,218	2,905
Ohio	32,959	0	32,959
Oklahoma	102,183	42,260	144,443
Oregon	55,797	20,144	75,941
Pennsylvania	65,069	1,175	66,245
Puerto Rico	37,192	128,184	165,376
Rhode Island	29	0	29
South Carolina	107,565	4,167	111,731
South Dakota	64,681	175	64,856
Tennessee	62,393	1,015	63,407
Texas	220,620	26,393	247,012
Utah	22,076	215	22,290
Vermont	18,303	(6)	18,298
Virgin Islands	18,075	868	18,944
Virginia	59,250	10,254	69,503
Washington	50,370	30,730	81,100
West Virginia	34,531	18,506	53,037
Wisconsin	93,547	42,682	136,230
Wyoming	36,741	7,005	43,746
TOTAL	\$2,958,337	\$1,072,931	\$4,031,268

NOTE — Numbers may not add due to rounding.

LOW INCOME PROGRAM

Approved Disbursements by Component, 2011 | (Unaudited – in thousands)

State	Lifeline	Link Up	Toll Limitation Service	Total 2011	Total 1998-2011
Alabama	\$33,309	\$253	\$(298)	\$33,263	\$140,817
Alaska	25,468	66	51	25,585	147,593
American Samoa	84	1	0	85	817
Arizona	22,799	278	35	23,112	210,263
Arkansas	29,065	11,313	93	40,472	76,012
California	157,953	5,294	67	163,314	3,683,616
Colorado	2,151	29	4	2,184	40,895
Connecticut	11,540	20	0	11,561	79,671
Delaware	3,257	1	0	3,258	7,758
District of Columbia	3,476	64	0	3,540	16,806
Florida	111,165	694	490	112,350	454,305
Georgia	71,543	6,591	56	78,190	251,524
Guam	251	37	0	288	3,966
Hawaii	479	6	0	485	11,396
Idaho	3,281	25	6	3,313	41,930
Illinois	54,410	13,138	142	67,690	200,756
Indiana	9,234	164	4	9,401	61,914
Iowa	5,099	347	7	5,453	50,121
Kansas	5,809	1,142	54	7,006	35,437
Kentucky	7,912	12	28	7,953	91,834
Louisiana	75,843	22,185	303	98,331	176,869
Maine	11,167	307	4	11,478	117,903
Maryland	31,381	11,441	0	42,822	59,944
Massachusetts	29,690	3	0	29,693	236,481
Michigan	63,017	2,238	378	65,634	285,841
Minnesota	5,890	49	4	5,944	76,788
Mississippi	30,066	4,405	442	34,913	92,971
Missouri	20,372	5,869	84	26,325	90,568
Montana	3,616	16	4	3,636	35,849
Nebraska	1,595	16	8	1,619	25,250
Nevada	5,636	692	1	6,329	42,966
New Hampshire	2,211	4	0	2,215	10,377
New Jersey	40,166	1,009	1	41,176	172,869
New Mexico	13,572	191	22	13,785	128,587
New York	130,416	266	246	130,928	819,607
North Carolina	66,021	744	334	67,099	278,880
North Dakota	2,111	21	1	2,134	35,431
Northern Mariana Islands	219	13	0	232	1,327
Ohio	75,936	1,298	582	77,816	445,317
Oklahoma	98,068	20,078	3,378	121,524	518,621
Oregon	6,610	23	7	6,641	69,057
Pennsylvania	43,559	354	3	43,916	220,143
Puerto Rico	56,833	2,071	0	58,904	227,987
Rhode Island	3,147	278	0	3,425	57,685
South Carolina	12,655	817	265	13,736	65,262
South Dakota	1,259	8	1	1,268	48,495
Tennessee	48,236	841	186	49,262	184,536
Texas	93,420	3,547	805	97,773	899,177
Utah	3,946	29	13	3,988	39,768
Vermont	2,458	18	1	2,477	39,460
Virgin Islands	109	1	0	111	775
Virginia	29,176	31	0	29,207	89,905
Washington	21,844	700	18	22,563	196,064
West Virginia	12,218	2,042	0	14,260	27,433
Wisconsin	18,669	1,980	11	20,660	123,961
Wyoming	400	4	0	403	7,478
TOTAL	\$1,619,818	\$123,066	\$7,844	\$1,750,728	\$11,557,094

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

LOW INCOME PROGRAM

Approved Disbursements by Incumbent v. Competitive ETC, 2011 | (Unaudited – *in thousands*)

State	Incumbent ETC	Competitive ETC	Total 2011
Alabama	\$6,237	\$27,027	\$33,263
Alaska	2,771	22,814	25,585
American Samoa	81	4	85
Arizona	4,800	18,312	23,112
Arkansas	2,638	37,834	40,472
California	158,665	4,650	163,314
Colorado	2,182	2	2,184
Connecticut	3,023	8,537	11,561
Delaware	112	3,146	3,258
District of Columbia	414	3,126	3,540
Florida	23,353	88,997	112,350
Georgia	13,090	65,100	78,190
Guam	232	56	288
Hawaii	437	49	485
Idaho	2,916	397	3,313
Illinois	5,769	61,920	67,690
Indiana	3,597	5,804	9,401
Iowa	2,988	2,465	5,453
Kansas	2,370	4,636	7,006
Kentucky	5,368	2,584	7,953
Louisiana	3,471	94,860	98,331
Maine	7,351	4,126	11,478
Maryland	764	42,059	42,822
Massachusetts	8,373	21,321	29,693
Michigan	7,435	58,199	65,634
Minnesota	5,616	328	5,944
Mississippi	5,568	29,345	34,913
Missouri	5,785	20,540	26,325
Montana	2,174	1,462	3,636
Nebraska	1,237	381	1,619
Nevada	2,648	3,681	6,329
New Hampshire	411	1,804	2,215
New Jersey	9,981	31,195	41,176
New Mexico	6,568	7,217	13,785
New York	28,853	102,075	130,928
North Carolina	12,275	54,823	67,098
North Dakota	2,043	91	2,134
Northern Mariana Islands	227	6	232
Ohio	23,865	53,950	77,816
Oklahoma	14,561	106,964	121,524
Oregon	4,560	2,081	6,641
Pennsylvania	12,262	31,654	43,916
Puerto Rico	15,562	43,342	58,904
Rhode Island	1,481	1,945	3,425
South Carolina	5,681	8,055	13,736
South Dakota	1,156	112	1,268
Tennessee	9,034	40,228	49,262
Texas	71,016	26,757	97,773
Utah	3,224	764	3,988
Vermont	2,477	0	2,477
Virgin Islands	92	19	111
Virginia	1,526	27,681	29,207
Washington	10,294	12,269	22,563
West Virginia	413	13,847	14,260
Wisconsin	5,460	15,200	20,660
Wyoming	365	39	403
TOTAL	\$534,850	\$1,215,877	\$1,750,728

NOTE — Numbers may not add due to rounding.

RURAL HEALTH CARE PROGRAM

Commitments and Approved Disbursements, 2011 | (Unaudited – in thousands)

State	COMMITMENTS			APPROVED DISBURSEMENTS	
	Funding Year 2011	Calendar Year 2011	Total 1998–2011	Calendar Year 2011	Total 1998–2011
Alabama	\$2	\$376	\$1,872	\$562	\$1,652
Alaska	2,179	36,766	271,726	43,925	253,967
American Samoa	78	429	907	103	581
Arizona	30	1,336	14,109	1,541	12,448
Arkansas	290	1,146	3,821	991	3,073
California	0	4,437	10,535	1,338	6,411
Colorado	0	176	1,985	327	1,826
Connecticut	0	0	0	0	0
Delaware	0	0	1	0	1
District of Columbia	0	0	0	0	0
Florida	0	266	3,279	572	2,860
Georgia	16	1,133	9,264	2,711	8,772
Guam	0	147	354	127	302
Hawaii	0	106	2,460	81	2,279
Idaho	0	499	2,360	348	1,830
Illinois	27	1,472	7,471	1,435	6,361
Indiana	0	797	4,026	972	3,617
Iowa	8	552	3,895	514	3,483
Kansas	111	452	4,257	482	3,936
Kentucky	0	612	5,083	812	4,806
Louisiana	0	92	1,150	130	1,104
Maine	0	49	476	53	356
Maryland	0	8	8	2	3
Massachusetts	0	22	637	129	629
Michigan	7	2,078	11,678	1,542	10,208
Minnesota	21	3,143	19,351	2,900	17,612
Mississippi	0	195	1,550	214	1,457
Missouri	94	647	3,083	688	2,628
Montana	0	716	6,998	724	6,716
Nebraska	499	1,033	13,325	1,569	12,256
Nevada	0	55	699	116	627
New Hampshire	0	12	117	18	112
New Jersey	0	0	0	0	0
New Mexico	0	730	5,011	848	4,213
New York	31	108	694	186	609
North Carolina	3	459	2,706	506	2,538
North Dakota	18	1,286	8,484	1,327	7,567
Northern Mariana Islands	0	0	0	0	0
Ohio	0	897	3,148	659	2,680
Oklahoma	0	1,237	4,135	1,054	3,485
Oregon	0	323	1,526	242	1,286
Pennsylvania	0	135	753	155	696
Puerto Rico	0	0	0	0	0
Rhode Island	0	0	0	0	0
South Carolina	0	51	345	36	316
South Dakota	0	578	8,280	885	7,754
Tennessee	0	248	2,066	464	1,927
Texas	30	1,246	8,402	2,335	6,967
Utah	25	794	6,464	914	5,642
Vermont	0	44	625	46	599
Virgin Islands	0	67	805	82	782
Virginia	0	533	5,799	505	4,556
Washington	14	159	1,010	121	828
West Virginia	12	154	1,450	211	1,370
Wisconsin	26	6,361	30,245	5,705	27,522
Wyoming	291	499	1,844	250	1,479
TOTAL	\$3,813	\$74,659	\$500,272	\$81,461	\$454,730

NOTE — There were no disbursements for Funding Year 2011 (July 1, 2011 - June 30, 2012) as of 12/31/2011. Numbers may not add due to rounding.

SCHOOLS AND LIBRARIES PROGRAM

Commitments and Approved Disbursements, 2011 | (Unaudited – in thousands)

State	COMMITMENTS			APPROVED DISBURSEMENTS		
	Funding Year 2011	Calendar Year 2011	Total 1998–2011	Funding Year 2011	Calendar Year 2011	Total 1998–2011
Alabama	\$25,189	\$57,387	\$505,375	\$3,572	\$58,891	\$400,218
Alaska	18,566	25,239	260,550	3,883	30,142	207,310
American Samoa	0	25	30,123	0	3,553	24,495
Arizona	32,247	76,208	780,033	2,107	60,428	540,098
Arkansas	11,886	31,427	298,541	1,178	18,068	184,975
California	227,691	339,933	4,461,669	18,159	321,118	3,141,745
Colorado	16,445	36,490	287,477	1,457	29,096	206,630
Connecticut	15,652	19,863	341,272	1,569	21,103	273,566
Delaware	1,486	2,168	21,223	27	2,225	15,771
District of Columbia	865	3,129	170,931	34	9,020	105,438
Florida	48,081	72,876	1,010,820	4,047	76,928	785,104
Georgia	48,129	92,985	1,003,499	8,325	91,205	765,892
Guam	613	630	24,304	4	188	16,605
Hawaii	2,591	3,185	55,312	46	3,557	31,269
Idaho	7,433	15,686	82,252	570	9,620	53,308
Illinois	40,640	99,162	1,324,715	2,126	92,605	966,250
Indiana	33,340	43,734	391,549	5,762	34,463	268,407
Iowa	13,612	17,534	158,361	2,630	12,853	112,388
Kansas	13,193	17,011	206,075	2,317	15,149	154,330
Kentucky	31,931	62,727	517,154	1,641	41,830	338,273
Louisiana	34,947	49,553	634,333	7,651	54,564	496,766
Maine	2,573	7,551	91,945	43	6,995	70,125
Maryland	21,773	61,990	284,375	648	23,816	181,859
Massachusetts	18,102	23,351	450,168	2,721	26,292	326,128
Michigan	38,724	65,936	807,121	6,480	51,144	584,357
Minnesota	18,124	32,556	335,335	1,329	26,728	252,916
Mississippi	24,197	32,736	478,364	1,731	23,507	342,985
Missouri	25,805	39,669	543,297	1,745	40,135	406,912
Montana	3,930	4,233	57,688	1,060	3,993	44,671
Nebraska	8,009	8,636	113,294	1,646	9,636	92,483
Nevada	4,593	7,194	73,427	86	6,819	51,345
New Hampshire	2,479	3,651	30,222	67	2,601	20,320
New Jersey	42,026	72,033	752,100	1,293	57,186	522,099
New Mexico	7,053	25,427	524,462	551	33,342	360,551
New York	70,456	176,844	4,007,696	4,033	148,954	2,513,570
North Carolina	40,242	79,164	702,525	5,501	68,387	542,980
North Dakota	4,662	4,902	52,921	1,255	4,226	43,508
Northern Mariana Islands	656	656	14,270	154	765	11,379
Ohio	49,912	69,572	1,010,230	7,532	67,352	728,629
Oklahoma	36,067	57,997	637,463	5,863	57,561	461,654
Oregon	11,231	21,967	196,081	635	16,066	139,015
Pennsylvania	51,608	82,233	1,030,025	3,932	64,226	814,535
Puerto Rico	5,384	11,163	323,643	949	9,317	201,707
Rhode Island	2,665	4,004	92,390	249	9,014	74,065
South Carolina	31,439	47,192	622,202	706	45,553	442,129
South Dakota	2,306	5,535	70,424	380	2,293	47,220
Tennessee	55,587	71,601	747,063	13,961	56,249	543,767
Texas	110,223	320,209	3,095,228	9,339	234,844	2,316,279
Utah	23,738	33,905	207,135	79	19,508	130,756
Vermont	2,184	2,471	27,289	35	1,827	17,588
Virgin Islands	6,083	6,256	69,469	612	10,537	53,576
Virginia	27,823	34,426	421,923	2,512	41,004	330,853
Washington	22,474	31,415	359,473	1,157	32,322	266,557
West Virginia	8,445	12,831	154,095	375	13,436	100,491
Wisconsin	39,741	44,780	395,237	1,587	27,006	291,718
Wyoming	4,204	5,218	47,502	95	3,294	33,124
TOTAL	\$1,449,057	\$2,576,253	\$31,391,647	\$147,447	\$2,232,539	\$22,450,687

NOTE — Funding Year data as of 12/31/2011. Funding Year 2011: July 1, 2011 - June 30, 2012. Numbers may not add due to rounding.

SCHOOLS AND LIBRARIES PROGRAM

Commitments by Discount Band, Funding Year 2011 | (Unaudited – in thousands)

Discount Band	Telecom Services	Internet Access	Internal Connections	Basic Maintenance	Total	% of Total
20-29%	\$1,513	\$646			\$2,159	0.15%
30-39%	2,428	689			3,117	0.22%
40-49%	66,891	21,054			87,946	6.07%
50-59%	79,959	24,957	Internal Connections and Basic Maintenance were funded at the 90% level as of 12/31/2011.		104,916	7.24%
60-69%	158,314	41,697			200,011	13.80%
70-79%	239,637	79,817			319,454	22.05%
80-89%	324,579	103,110			427,688	29.51%
90%	109,537	42,429	\$127,315	\$24,485	303,766	20.96%
TOTAL	\$982,858	\$314,399	\$127,315	\$24,485	\$1,449,057	100.00%

NOTE — Funding Year data as of 12/31/2011. Funding Year 2011: July 1, 2011 - June 30, 2012. Numbers may not add due to rounding.

SCHOOLS AND LIBRARIES PROGRAM

Commitments by Applicant Type, Funding Year 2011 | (Unaudited)

Applicant Type	Applications Funded	Commitments (in thousands)	% of Applications	% of Total
School/Library Consortium	566	\$164,507	1.81%	11.35%
School District	18,206	\$1,118,732	58.19%	77.20%
School	7,908	\$93,699	25.27%	6.47%
Library/Library Consortium	4,608	\$72,119	14.73%	4.98%
TOTAL	31,288	\$1,449,057	100.00%	100.00%

NOTE — Funding Year data as of 12/31/2011. Funding Year 2011: July 1, 2011 - June 30, 2012. Numbers may not add due to rounding.

SCHOOLS AND LIBRARIES PROGRAM

Commitments by Rural v. Urban, Funding Year 2011 | (Unaudited)

Applicant Type	Applications Funded	Commitments (in thousands)	% of Applications	% of Total
Urban	8,333	\$140,688	26.63%	9.71%
Rural	4,586	\$43,000	14.66%	2.97%
N/A	18,369	\$1,265,368	58.71%	87.32%
TOTAL	31,288	\$1,449,057	100.00%	100.00%

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

NOTE — Funding Year data as of 12/31/2011. Funding Year: July 1, 2011-June 30, 2012. Numbers may not add due to rounding.

UNIVERSAL SERVICE FUND

Approved Disbursements by Program, Calendar Year 2011 | (Unaudited – in thousands)

State	High Cost	Low Income	Rural Health Care	Schools & Libraries	Total 2011	Total 1998-2011
Alabama	\$90,341	\$33,263	\$562	\$58,891	\$183,057	\$1,821,438
Alaska	202,518	25,585	43,925	30,142	302,170	2,336,650
American Samoa	1,813	85	103	3,553	5,554	53,922
Arizona	71,292	23,112	1,541	60,428	156,373	1,632,598
Arkansas	89,481	40,472	991	18,068	149,012	1,804,850
California	90,587	163,314	1,338	321,118	576,357	8,055,243
Colorado	70,990	2,184	327	29,096	102,597	1,225,826
Connecticut	453	11,561	0	21,103	33,117	369,882
Delaware	221	3,258	0	2,225	5,704	29,935
District of Columbia	0	3,540	0	9,020	12,560	122,244
Florida	54,708	112,350	572	76,928	244,558	2,195,116
Georgia	111,272	78,190	2,711	91,205	283,378	2,508,527
Guam	20,037	288	127	188	20,640	159,849
Hawaii	60,971	485	81	3,557	65,094	451,785
Idaho	49,662	3,313	348	9,620	62,943	758,522
Illinois	65,133	67,690	1,435	92,605	226,863	1,940,109
Indiana	78,417	9,401	972	34,463	123,253	1,092,875
Iowa	129,905	5,453	514	12,853	148,725	1,322,682
Kansas	190,681	7,006	482	15,149	213,318	2,227,973
Kentucky	101,168	7,953	812	41,830	151,763	1,424,001
Louisiana	114,460	98,331	130	54,564	267,485	2,210,823
Maine	30,004	11,478	53	6,995	48,530	597,639
Maryland	3,351	42,822	2	23,816	69,991	289,125
Massachusetts	2,088	29,693	129	26,292	58,202	624,879
Michigan	42,111	65,634	1,542	51,144	160,431	1,567,370
Minnesota	98,883	5,944	2,900	26,728	134,455	1,599,387
Mississippi	245,674	34,913	214	23,507	304,308	3,140,252
Missouri	98,065	26,325	688	40,135	165,213	1,701,849
Montana	88,018	3,636	724	3,993	96,371	1,041,454
Nebraska	90,350	1,619	1,569	9,636	103,174	997,272
Nevada	20,640	6,329	116	6,819	33,904	426,400
New Hampshire	9,381	2,215	18	2,601	14,215	163,404
New Jersey	1,501	41,176	0	57,186	99,863	724,767
New Mexico	81,869	13,785	848	33,342	129,844	1,279,238
New York	41,715	130,928	186	148,954	321,783	4,014,141
North Carolina	68,469	67,098	506	68,387	204,460	1,726,041
North Dakota	96,987	2,134	1,327	4,226	104,674	936,460
Northern Mariana Islands	2,905	232	0	765	3,902	46,187
Ohio	32,959	77,816	659	67,352	178,786	1,637,292
Oklahoma	144,443	121,524	1,054	57,561	324,582	2,493,100
Oregon	75,941	6,641	242	16,066	98,890	1,134,682
Pennsylvania	66,245	43,916	155	64,226	174,542	1,727,222
Puerto Rico	165,376	58,904	0	9,317	233,597	2,329,586
Rhode Island	29	3,425	0	9,014	12,468	132,270
South Carolina	111,731	13,736	36	45,553	171,056	1,581,979
South Dakota	64,856	1,268	885	2,293	69,302	931,628
Tennessee	63,407	49,262	464	56,249	169,382	1,416,808
Texas	247,012	97,773	2,335	234,844	581,964	6,118,308
Utah	22,290	3,988	914	19,508	46,700	446,574
Vermont	18,298	2,477	46	1,827	22,648	402,408
Virgin Islands	18,944	111	82	10,537	29,674	378,330
Virginia	69,503	29,207	505	41,004	140,219	1,314,354
Washington	81,100	22,563	121	32,322	136,106	1,568,287
West Virginia	53,037	14,260	211	13,436	80,944	971,908
Wisconsin	136,230	20,660	5,705	27,006	189,601	1,881,573
Wyoming	43,746	403	250	3,294	47,693	680,242
TOTAL	\$4,031,268	\$1,750,728	\$81,461	\$2,232,539	\$8,095,996	\$81,767,320

NOTE — Numbers may not add due to rounding.

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