



2013 ANNUAL REPORT



INTERACTIVE PDF

Trusted guide in a changing landscape

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It is our duty at USAC to anticipate oncoming change that often arrives rapidly and to provide straightforward guidance to help program participants navigate shifting landscapes in an environment of complex transactions. With flexibility and responsiveness, we worked in 2013 to connect with beneficiaries and show them a clear path towards affordable access to telecommunications and Internet services.

HIGH COST PROGRAM

The High Cost Program provides support to eligible telecommunications carriers that in turn offer rates and services to consumers in rural areas that are reasonably comparable to those available in urban areas.

LIFELINE PROGRAM

The Lifeline Program provides support to eligible telecommunications carriers that in turn offer discounts on telecommunications services to eligible consumers.

RURAL HEALTH CARE PROGRAM

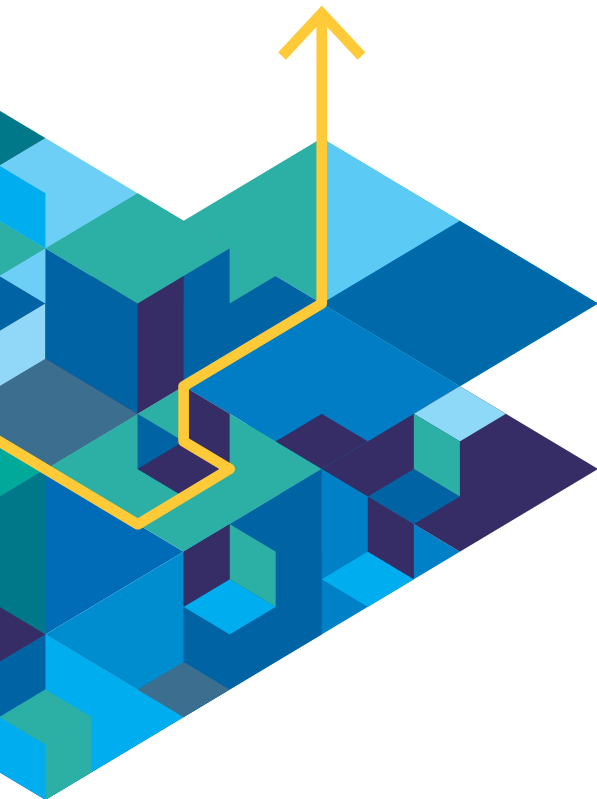
The Rural Health Care Program provides support to eligible health care providers for reduced rates for telecommunications services and broadband access.

SCHOOLS AND LIBRARIES PROGRAM

The Schools and Libraries Program, commonly known as the E-rate Program, provides support to eligible schools and libraries for reduced rates for telecommunications, telecommunications services, Internet access, and eligible products along with repair and upkeep of eligible products.



CHAIRMAN AND INTERIM CEO LETTER



In this annual report, you will discover how USAC spent 2013 turning big changes in universal service programs into operational realities. Across the organization, USAC built solid platforms for launching new tools and procedures that strengthened program integrity and widened opportunities for program participants. Across all universal service program areas, USAC expanded and modernized channels of communication and served as a conduit for critical data to flow among programs, stakeholders, and the Federal Communications Commission (FCC). We have made continuous progress over the years and pride ourselves on consistently discovering better ways to achieve the goals of administering the universal service support programs.

In the Lifeline Program, USAC put an enormous amount of effort into the creation of the *Universal Service Administrative Company National Longitudinal Administrative Database (NLAD)* in 2013. This database helps carriers keep track of consumers who receive Lifeline Program-supported service and is designed to prevent waste, fraud, and abuse by preventing receipt of duplicate support payments. NLAD opened with a launch in five states in late 2013 and will expand to include carriers nationwide in early 2014.

In the High Cost Program, USAC and the FCC strengthened oversight and accountability in the program through *the High Cost Program Data Collection System*, a form designed to gather data providing insights into access to broadband Internet services in the United States. USAC also launched systems improvements that sped up universal service payments, useful for initiating payments in 2013 to carriers through the new Mobility Fund and releasing Phase I disbursements of the Connect America Fund.

As soon as the Healthcare Connect Fund (HCF) Order was released in December 2012, USAC began working closely with the FCC to implement changes to Rural Health Care Program activities and focus. The *Healthcare Connect Fund (HCF) Order* to support the formation of state and regional broadband health care networks. New forms and processes were developed to guide applicants through the changes, and USAC started processing requests for HCF Program support by early fall.

With the FCC's *Streamlining Universal Service Support Programs* beginning in the summer of 2013, USAC's ongoing work to implement software changes and streamline program administration will position the program well for implementing any new program rules. Sharpening the program's focus on affordable access to high-speed broadband connectivity will showcase USAC's commitment to making program changes transition smoothly for program beneficiaries and service providers. Key to this posture have been significant enhancements to the program's technology capabilities, a result of fully establishing a self-sufficient, in-house IT staff in 2013. We are eager to take further steps to improve the user experience for program participants in 2014 and beyond.

USAC made improvements to the way we collect and use data. USAC's IT and Finance teams implemented an internal budget module that significantly *improved the accuracy of budgeting and reporting*. USAC's Internal Audit Division found ways to improve system processes and help the customer experience through new communication channels, expanded internal training, and more detailed data collection.

By adapting to and planning for all of the changes that universal service programs have undergone this year, USAC has registered accomplishments in operations, customer service, and administrative efficiencies. We remain grounded in our vision of connecting Americans to each other and the world.

Eight new members joined the *USAC Board of Directors*. We welcome them and thank our longstanding Board members for their dedicated service and valuable guidance. We also want to thank USAC's experienced staff members for their dynamic work. We are pleased with our progress in 2013 and excited about what the future holds in the administering of the universal service programs.



Dr. Brian L. Talbott
CHAIRMAN OF
THE BOARD



Richard Belden
INTERIM CHIEF
EXECUTIVE OFFICER

STATEMENT FROM THE CHAIRMAN

On behalf of the USAC Board of Directors, I want to acknowledge the many invaluable contributions Scott Barash made to USAC over his 14 years with the company, first as General Counsel then as Acting Chief Executive Officer. Scott left USAC in February 2014 for a new position and a new challenge. We wish him the best in his new endeavor and thank him for shaping USAC into the highly successful organization it is today.

Fund Administration

Always working to elevate standards and encourage transparency, USAC spent 2013 refining and improving how data is collected and used.

USAC implemented Forecaster, a budgeting module that improves USAC's internal budget tracking by enhancing documentation capabilities, giving greater access to specific details along with heightened data security.

USAC operations and financial systems are now working together with applications systems more efficiently than ever before. This transition has improved business analytics, the tracking of spending and assets, and communication with stakeholders.

streamlined processes in 2013. These enhancements to operations complemented ongoing technical training for auditors in the division. Auditors received over 40 hours of

intense training. They built an elevated skill set that allows them to conduct highly complex audits of program beneficiaries and universal service fund contributors. Auditors are now prepared to conduct the in-depth and labor-intensive audits that will be necessary in years to come.

USAC looked for ways to gather feedback from customers in order to achieve a better understanding of how auditors were doing in the field. A new survey sent to customers after every audit identified areas that could use improvement. By opening these channels of communication, USAC was able to capture valuable insights that have helped improve operating procedures.

USAC ADMINISTRATIVE EXPENSES (UNAUDITED)

YEAR	EXPENSE RATE ²	USAC ADMINISTRATIVE EXPENSES	FCC OIG USF AUDIT PROGRAM COSTS ³	TOTAL ADMINISTRATIVE EXPENSES
2009	2.57%	\$ 99,591,000	\$ 87,074,000	\$ 186,665,000
2010	1.33%	\$ 102,089,000	\$ 3,337,000	\$ 105,426,000
2011	1.32%	\$ 106,542,000	\$ 205,000	\$ 106,747,000
2012	1.27%	\$ 110,880,000	\$ 0	\$ 110,880,000
2013 ¹	1.29%	\$ 107,761,000	\$ 0	\$ 107,761,000

Notes — 1. USAC administrative expenses based on unaudited financial statement in this annual report for 2013.

2. Percentage shows USAC administrative expenses divided by total approved program disbursements.

3. FCC OIG USF audit expenses as reported in Board of Directors meetings. Does not include costs of audits done by USAC staff.

USAC finalized nearly 150 audits under the Beneficiary and Contributor Audit Program 2012-2013 plan, examining over \$92 million in paid to program participants. The Payment Quality Assurance Program reviewed more than 1,800 payments, and results showed that universal service programs continue to have low improper payment rates.

USAC also began reaching out to carriers in new ways to better communicate the consequences of failing to pay delinquent debts. As a result, USAC collected a significant portion of the delinquent debt associated with the targeted outreach.

USAC continues to deliver quality communications by effectively conveying information to stakeholders in an effort to keep them educated and informed. Through , stakeholders stay up-to-date with universal service program changes. USAC reached almost 165,000 people in 2013, conducting 17 live training events with nearly 2,300 attendees, holding 12 webinars that drew more than 4,900 participants, sending out nearly 200 communications through email, holding regular conference calls, and participating in professional meetings.



The big changes in the High Cost Program envisioned in the FCC's 2011 continued to roll out during 2013. Designed to launch the Connect America Fund, the order transitions the High Cost Program away from support of networks that provide only voice telephone service and towards multi-purpose networks capable of also offering broadband Internet access through fixed and mobile technologies. This shift in focus prompted significant changes to USAC operations.

Central to the successful implementation of program changes . A comprehensive tool to gather data about carrier compliance and progress towards the goals of universal service, the FCC Form 481 came online in the middle of the year with great success. With over 400 data points, the form presented a complex technology challenge. USAC's IT and High Cost Program teams worked together to build a smooth interface and robust data environment, all fully integrated in

E-File. With the functionality of FCC Form 481 fully established, USAC is now able to provide the FCC with extensive data about how effectively program changes are working for carriers and customers to make broadband available to all areas of the country as quickly as possible.

Filers of the FCC Form 481 benefited from numerous . Two webinars on filing requirements attracted over 1,000 participants. Also supported by comprehensive filing instructions, carriers completed the filing process with high rates of success. Nearly 100 percent of those required to file did so by the October 15 deadline, and 94 percent did so online.

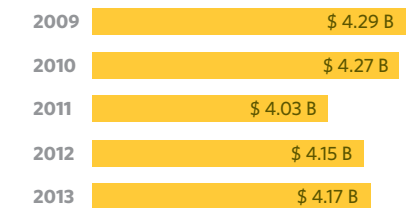
Meanwhile, payments for Phase I support continued to grow. Focused on bringing broadband access to unserved areas, Phase I (frozen Price Cap and Incremental support) disbursements came to over \$1.3 billion in 2013.

The FCC Form 481 came online in the middle of the year with great success.

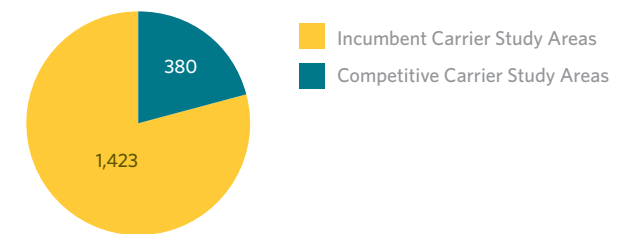
Supporting mobile access to voice and broadband services, USAC initiated payments in 2013 to carriers through the new . By year's end, almost \$75 million was disbursed to carriers to bring these services to unserved areas within two to three years. Working with the FCC, USAC developed and posted FCC Form 690, designed to capture information for the provision of mobile services just as the FCC Form 481 does for services provided to fixed locations.

While these new activities were launching, USAC continued to refine current operations. Systems improvements reduced run times for disbursement calculations by about half, bringing greater reporting capabilities. USAC can apply controls more precisely, track disbursement processes more closely, and speed up payment processing.

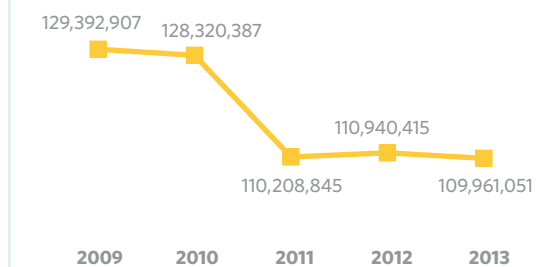
APPROVED DISBURSEMENTS



STUDY AREAS RECEIVING SUPPORT IN 2013



NUMBER OF LINES SUPPORTED



USAC launched the National Lifeline Accountability Database.

In 2013, USAC continued its legacy of protecting universal service and helping the right people get the right amount of support by moving forward with the creation of the National Lifeline Accountability Database (NLAD). This database helps carriers keep track of consumers who receive Lifeline Program-supported service.

Beginning in 2011 and continuing through the end of 2013, USAC conducted in-depth data validations of subscriber data that checked telecommunications carriers' records for duplicate subscribers. This effort eliminated 2.2 million duplicate subscribers and yielded program savings of over \$260 million. This savings confirmed the need to create NLAD, which would result in even greater universal service savings by preventing duplications from happening in the first place.

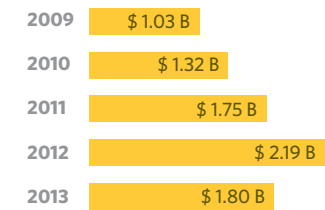
Under a tight timeline, USAC began building NLAD in May. By year's end, NLAD had launched in five states.

This project required collaboration among teams from various departments at USAC to write requirements, purchase software and hardware, and develop code. These highly skilled teams developed an efficient system to access carriers' subscriber data, remove duplicate subscribers, monitor carrier compliance, and retrieve money for duplicate claims.

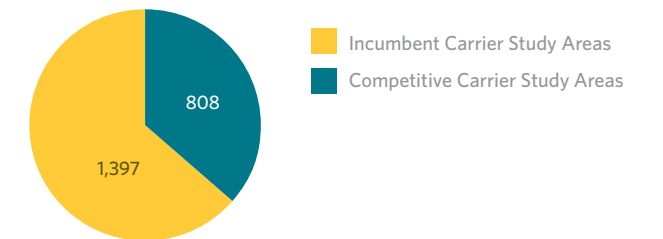
Next, Lifeline Program staff engaged in an open dialogue with carriers through an outreach campaign, including a webinar event and four collaborative, online and in-person workshops that drew 2,100 participants. During these workshops, program staff listened to carriers' concerns and received valuable input that shaped the final templates carriers would have to use.

To keep carriers in-the-know, USAC created a section dedicated to NLAD on the USAC website where they could learn about NLAD and receive guidance on recent updates. Ten video tutorials were created to educate carriers on the key functions of NLAD.

APPROVED DISBURSEMENTS



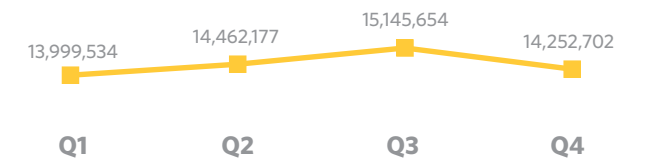
STUDY AREAS RECEIVING SUPPORT IN 2013



The National Lifeline Accountability Database (NLAD), a regular newsletter emailed to about 2,200 subscribers, launched in November.

Further Lifeline Program reforms required consumers to recertify their eligibility for support on an annual basis, reported by carriers. Supported by strong documentation requirements, the recertification process provides a mechanism to de-enroll consumers whose eligibility status changes from one year to the next. Taken together, efforts to eliminate duplicate subscribers, recertify eligibility each year, and launch NLAD have given the FCC and USAC important new tools to safeguard the integrity of Lifeline Program disbursements.

SUBSCRIBERS SUPPORTED



Quarterly numbers are averages.

USAC implemented program changes in 2013 to support the requirements of the [redacted] issued by the FCC in December 2012. Rural Health Care (RHC) Program staff worked in partnership with the FCC to navigate the implementation of policy and steer applicants in the right direction.

The [redacted] was created to encourage applicants to form state and regional broadband health care networks and to apply for universal service support. To help applicants stepping into new program roles, RHC Program staff devised strategies that would build new infrastructure and lay the groundwork for a smooth transition.

In 2013, program staff immediately went to work to develop new online forms and processes.

[redacted], received an upgrade to adapt to these fast-changing rules and requirements. Program staff successfully launched four new HCF Program forms online in 2013. The online

forms make it easier for applicants to request services and funding. Program staff also introduced improved functionality for the Telecommunications and Internet Access Programs that reduced processing errors and helped service providers receive their payments faster.

Meanwhile, ongoing RHC Program operations continued to mature. The [redacted], formerly the Primary Program, received over 5,000 requests for services in Funding Year (FY) 2013, a 6.8-percent increase over FY2012. [redacted] was brought in-house effective July 1 providing cost savings and operational efficiencies for USAC. In 2013, program staff issued 30 additional funding requests for total cumulative commitments of \$366.5 million, processed over 400 invoices, and disbursed over \$33 million to Pilot Program projects. Since the start of the Pilot Program, USAC has disbursed almost \$212 million.

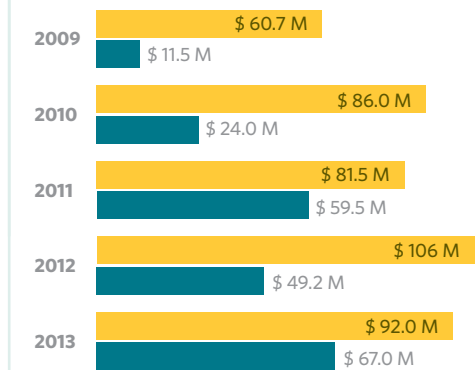
USAC [redacted] to equip HCF Program participants with the crucial information they would need to apply for universal service support. The

In 2013, program staff immediately went to work to develop new online forms and processes.

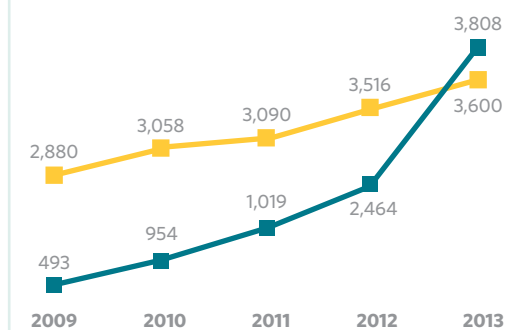
campaign began with a webinar that introduced the HCF Order, giving clear, straightforward answers to applicants' questions. Further outreach efforts gave applicants the confidence to maneuver through new program requirements and helped them stay current on upcoming trainings and deadlines.

USAC provided instruction that focused on new HCF Program topics to nearly 400 participants at three live trainings. Applicants could attend trainings in person or online and access training materials on the USAC website. USAC hosted conference calls to answer frequently asked questions and created five video tutorials made available through USAC's online learning library. USAC communicated with over 50,000 people in 2013 through email and the program's two newsletters: the [redacted] and the monthly HCF Bulletin.

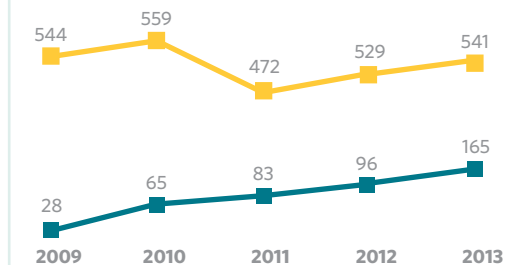
APPROVED DISBURSEMENTS



HEALTH CARE PROVIDERS RECEIVING SUPPORT



SERVICE PROVIDERS PARTICIPATING



■ Rural Health Care Program ■ Pilot Program

Demand for E-rate Program support continued to remain strong as USAC focused on customer service.

Demand for Schools and Libraries (E-rate) Program support continued to remain strong for Funding Year (FY) 2013. USAC focused on delivering decisions to applicants and providing the highest level of customer service.

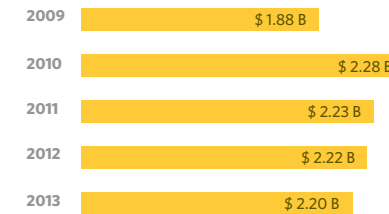
More than 45,000 applications were received, seeking nearly \$5 billion in E-rate Program funds. Within this pool were almost 95,400 schools or school districts and nearly 11,700 libraries. The demand for support for telecommunications, telecommunications services, and Internet access (Priority One services) totaled \$2.71 billion, a 10.8 percent increase from the previous year, owing mostly to requests for greater bandwidth. The demand for support for internal network connections and maintenance of internal network connections (Priority Two services) at schools and libraries was \$2.28 billion, an 18.5 percent decrease from the previous year.

USAC responded quickly to applicants and service providers to help program participants get the information they needed. By the end of 2013, USAC issued funding decisions for 90 percent of FY2013 Priority One applications

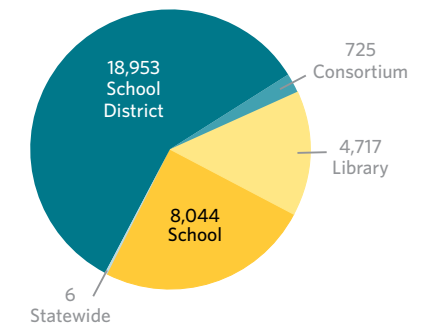
. This total represented 60 percent of all dollars requested for Priority One support. USAC paid nearly 98 percent of invoices within 30 days of receipt and issued decisions on a majority of appeals within 60 days of receipt. USAC also handled a large volume of phone inquiries, answering over 49,000 calls with nearly 98 percent of questions resolved on the first call.

In early June, President Obama introduced ConnectED, an initiative to connect 99 percent of America's students to the Internet through high-speed broadband and high-speed wireless service within the next five years. In July, the FCC opened a rulemaking proceeding, seeking comment on how to modernize the E-rate Program. USAC looks forward to working with the FCC to implement program changes.

APPROVED DISBURSEMENTS



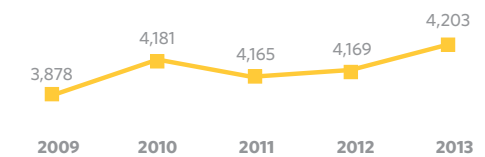
APPLICATIONS FUNDED, FUNDING YEAR 2013



E-rate Program included two spring trainings for service providers that supported nearly 400 attendees, and eight applicant fall trainings across the country that supported over 1,450 attendees. Applicants learned about general E-rate Program rules, essential program updates, revised FCC forms, eligible services, and audits. In addition, program staff instructed applicants how to better navigate the application process.

The team completed 830 HATS-type visits in 2013 with 62 visits conducted in person, 197 by telephone, and 571 in targeted outreach projects. Applicants were provided help in a variety of subject matter areas so that they would be successful during the application process. In 2013, the HATS team initiated outreach with applicants in 50 states, Puerto Rico, Guam, and the Northern Mariana Islands.

SERVICE PROVIDERS PARTICIPATING



MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSION AND STRUCTURE

The Universal Service Administrative Company (USAC) is a not-for-profit corporation that was formed in 1997 to administer the federal universal service support programs and the universal service fund (USF) in accordance with Federal Communications Commission (FCC) rules.

USAC collects and distributes funds, works to protect the integrity of the universal service programs - High Cost, Lifeline, Rural Health Care, and Schools and Libraries - promotes compliance among program participants, and provides information about universal service 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 and Internet services available to consumers, health care providers, schools, and libraries throughout the United States.

FCC regulations governing USAC are found in Part 54 of Title 47 of the Code of Federal Regulations (47 CFR Part 54). These regulations required USAC to establish three program divisions: High Cost and Low Income, Rural Health Care, and Schools and Libraries. The program divisions are supported by additional USAC personnel in External Relations, Finance, General Counsel, Human Resources and Operations, Information Systems, and Internal Audit. Consistent with FCC rules, USAC does not make policy for or interpret unclear provisions of statutes or the FCC's rules.

PERFORMANCE MEASURES

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

FUND ADMINISTRATION	1st QTR	2nd QTR	3rd QTR	4th QTR
USF CONTRIBUTOR STATISTICS				
Number of USF contributors	3,082	3,121	3,113	3,125
Total contributions to the USF (in thousands)	\$ 2,291,777	\$ 2,167,508	\$ 2,175,867	\$ 2,115,745
Total delinquencies or past due payments (in thousands)	\$ 297,256	\$ 251,468	\$ 257,011	\$ 264,793
AVERAGE TIME TO PROCESS PAYMENTS (IN DAYS)				
High Cost Program	4	2	2	3
Lifeline Program	29	29	29	29
Rural Health Care Program (Funding Year 2012)	n/a	16	13	12
Schools and Libraries Program (Funding Year 2012)	5	5	7	10
USAC COMPLAINT STATISTICS				
Complaints about USAC	30	11	16	11
Average number of business days to resolve complaints	1.2	0.9	0.8	1.0

HIGH COST PROGRAM	1st QTR	2nd QTR	3rd QTR	4th QTR
Total amount disbursed (in thousands)	\$ 956,158	\$ 980,308	\$ 974,859	\$ 1,248,302

LIFELINE PROGRAM	1st QTR	2nd QTR	3rd QTR	4th QTR
Total amount disbursed (in thousands)	\$ 446,871	\$ 443,857	\$ 460,099	\$ 446,883
Number of program beneficiaries (ETCs)	2,068	2,081	2,104	2,109

RURAL HEALTH CARE PROGRAM	1st QTR	2nd QTR	3rd QTR	4th QTR
APPLICATION TYPES (all numbers cumulative for funding year)				
FUNDING YEAR 2013				
Telecom	n/a	n/a	1,175	2,667
Internet	n/a	n/a	630	1,550
FUNDING YEAR 2012				
Telecom	4,043	7,438	7,778	7,780
Internet	1,739	3,869	4,006	4,007

APPLICATION OUTCOMES (all numbers cumulative for funding year)				
FUNDING YEAR 2013				
Submitted	n/a	n/a	1,805	4,217
Granted	n/a	n/a	0	51
Rejected	n/a	n/a	0	1
FUNDING YEAR 2012				
Submitted	5,782	11,307	11,784	11,787
Granted	1,918	4,637	7,155	9,671
Rejected	91	259	406	576

INVOICES FUNDING YEAR 2012 (all numbers cumulative for funding year)				
Invoices received	120	559	1,491	2,156
Invoices paid	0	401	1,204	1,888
Invoices rejected	12	93	189	191

APPEALS				
Current appeals (new appeals received in each quarter)	8	10	13	26
Average calendar days to resolve appeals	97	135	94	99

SCHOOLS AND LIBRARIES PROGRAM	1st QTR	2nd QTR	3rd QTR	4th QTR
APPLICATION OUTCOMES (all numbers cumulative for funding year)				
FUNDING YEAR 2013				
Submitted	47,027	47,205	47,224	47,248
Granted	n/a	13,752	23,932	32,415
Rejected	n/a	4	84	465
FUNDING YEAR 2012				
Submitted	46,998	46,999	47,000	47,009
Granted	38,215	39,739	39,958	39,968
Rejected	4,342	4,396	4,406	4,443
INVOICES FUNDING YEAR 2012 (all numbers cumulative for funding year)				
Invoices received	196,428	333,079	451,211	520,444
Invoices paid	176,272	302,112	405,089	471,081
Invoices rejected	10,740	18,874	24,865	30,813
APPEALS				
Current appeals (new appeals received in each quarter)	421	409	321	323
Average calendar days to resolve appeals	81	77	68	70

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

USAC has a formal internal controls structure and review process consistent with the guidance in Office of Management and Budget (OMB) Circular A-123 titled "Management's Responsibility for Internal Control," including Appendix A (Implementation Plans). In 2013, USAC's internal controls group continued to enhance USAC's overall internal controls framework with their documentation and assessment program, including maintaining up-to-date policies and procedures. No material weaknesses were identified during the 2013 internal controls assessments. In addition to annual internal controls assessments, USAC contracts with an independent audit firm to perform an annual audit of its financial statements as well as agreed upon procedures in compliance with the requirements in 47 CFR Part 54. The FCC's auditors also audit the universal service fund 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 universal service, it is the responsibility of USAC's management to be in compliance with laws and regulations applicable to the universal service fund. The 2013 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., USAC as the administrator of the universal service fund) 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.

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, 2013, are not considered final until the 2013 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, 2012, and 2011, included herein.

The table on the right presents selected data about USAC's staffing and operations for 2013 and 2012.

ITEM	2013	2012
Number of employees	356	328
Personnel costs	\$ 41,620,000	\$ 35,820,000
Overall general and administrative expenses	\$ 23,207,000	\$ 19,081,000
Contract expenses	\$ 39,418,000	\$ 51,384,000

2013 USAC Contractors Receiving Payments Greater than \$1 Million

CONTRACTOR/VENDOR	TYPE OF GOODS/SERVICE	PROCUREMENT METHOD
Solix, Inc.	RHC-SL Operational Support Services	Competitive Bid
Cigna Healthcare	Employee Benefits	Competitive Bid
Brookfield Properties / Rockrose	Office Lease 2013	Sole Source
CostQuest Associates, Inc.	HC Information Technology Services (CAM)	Sole Source
Information Management Consultants, Inc.	LI Information Technology Services (NLAD)	Competitive Bid
Cotton & Company LLP	Payment Quality Assurance Support Services	Competitive Bid
DP George & Company, LLC	Financial Statement Audit and Agreed Upon Procedures Review	Competitive Bid
Equinix, Inc.	Information Technology Services	Competitive Bid
Science Applications International Corp	RHC-SL Information Technology Services	Competitive Bid
Oracle America, Inc	Information Technology (Software Licenses and Maintenance)	Competitive Bid

Dollar Range: ■ + \$25 million ■ \$1 million - \$25 million

Statement of Financial Position of USAC

As of December 31, 2013 | (Unaudited - in thousands)

	2013
ASSETS	
Current Assets	
Cash	\$ 5,895
Receivable from the Federal USF	7,131
Prepaid expenses and other current assets	1,838
Assets held for the Federal USF	2,568,418
Total Current Assets	2,583,282
Fixed Assets, net, held for Federal USF	7,128
Other Assets	503
Assets held for the Federal USF	5,126,399
TOTAL	\$ 7,717,312
LIABILITIES AND UNRESTRICTED NET ASSETS	
Current Liabilities	
Accounts payable and accrued liabilities	\$ 5,334
Advance from the Federal USF	13,024
Deferred revenue	146
Liabilities related to assets held for the Federal USF	2,568,418
Total Current Liabilities	2,586,922
Deferred rent	3,991
Liabilities related to assets held for the Federal USF	5,126,399
Commitments and contingencies	0
TOTAL	\$ 7,717,312
Net Assets	\$ 0

Statement of Operations and Change in Unrestricted Net Assets of USAC

For the Year Ended December 31, 2013 | (Unaudited - in thousands)

	2013
REVENUE	\$ 107,761
Operating Expenses	
Contractual expenses	39,418
Personnel and related expense	41,620
General and administrative	23,207
Depreciation, amortization, and gain/loss on retirements	3,516
Total Operating Expenses	107,761
Change in Net Assets	0
Net Assets — Beginning of year	0
NET ASSETS — END OF YEAR	\$ 0

Statement of Cash Flows of USAC

For the Year Ended December 31, 2013 | (Unaudited - in thousands)

	2013
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from the Federal USF and other parties	\$ 109,377
Cash paid for operating expenses and employees	(103,442)
Net cash provided by operating activities	5,935
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures	(3,939)
Increase (Decrease) in Cash	1,996
Cash, Beginning of year	3,899
Cash, End of year	\$ 5,895
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Change in net assets	\$ 0
<i>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</i>	
Depreciation and amortization	2,619
(Gain) Loss on retirement of fixed assets	896
<i>Changes in operating assets and liabilities:</i>	
Decrease in prepaid expense and other assets	867
(Increase) in assets held for the Federal USF	(323,838)
Decrease in receivable from the Federal USF	1,993
(Decrease) in accounts payable and accrued liabilities	(888)
(Decrease) in deferred revenue	(378)
Increase in deferred rent	825
Increase in liabilities related to assets held for the Federal USF	323,838
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 5,935
Supplemental disclosure of non-cash information	
Non-monetary like kind exchange	\$ 0
Capital expenditures included in accounts payable/accrued expenses	\$ 1,354

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

As of December 31, 2013 | (Unaudited - in thousands)

2013							
	SCHOOLS AND LIBRARIES	HIGH COST	HIGH COST - BROADBAND	LIFELINE	RURAL HEALTH CARE	SHARED COSTS	TOTAL USF
ASSETS							
Cash and cash equivalents	\$ (1,223,347)	\$ 252,646	\$ 1,202,319	\$ 115,594	\$ 352,400	\$ 0	\$ 699,612
Investments	6,223,019	0	0	0	0	0	6,223,019
Receivables	225,777	17,775	0	13,554	830	1,013,790	1,271,726
Allowance for doubtful accounts	0	0	0	0	0	(510,550)	(510,550)
Interest receivable	0	0	0	0	0	11,010	11,010
Assets held for the Federal USF	5,225,449	270,421	1,202,319	129,148	353,230	514,250	7,694,817
Receivable from USAC	3,569	6,983	0	2,290	182	0	13,024
TOTAL	\$ 5,229,018	\$ 277,404	\$ 1,202,319	\$ 131,438	\$ 353,412	\$ 514,250	\$ 7,707,841
LIABILITIES							
Payable to service providers	(20,400)	(3,844)	0	(26,480)	(185)	0	(50,909)
Accrued liabilities	(22,919)	(454,877)	0	(182,311)	(2,291)	0	(662,398)
TOTAL	\$ (43,319)	\$ (458,721)	\$ 0	\$ (208,791)	\$ (2,476)	\$ 0	\$ (713,307)

Note — This schedule represents the assets and liabilities applicable to the Federal USF at December 31, 2013, 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, 2013 | (Unaudited - in thousands)

2013					
	SCHOOLS AND LIBRARIES	HIGH COST	LIFELINE	RURAL HEALTH CARE	TOTAL USF
ADDITIONS					
Amounts billed to contributors	\$ 2,355,953	\$ 4,543,701	\$ 1,635,156	\$ 176,453	\$ 8,711,263
Non-exchange revenue bad debt	(1,459)	(2,834)	635	(120)	(3,778)
Interest income	15,839	3,722	708	1,118	21,387
Total additions	2,370,333	4,544,589	1,636,499	177,451	8,728,872
DEDUCTIONS					
Amount paid and due to service providers	2,202,058	4,251,125	1,789,139	157,180	8,399,502
Bad debt expenses	2,881	0	483	0	3,364
Operating expenses	64,276	20,679	9,699	12,558	107,212
Unrealized/realized gain or loss	4,703	(9)	(2)	(3)	4,689
Total deductions	2,273,918	4,271,795	1,799,319	169,735	8,514,767
CHANGES IN NET ASSETS	\$ 96,415	\$ 272,794	\$ (162,820)	\$ 7,716	\$ 214,105

Note — This schedule represents the changes in net assets applicable to the Federal USF at December 31, 2013, for each of the support programs.

Combining Supplemental Schedule of Cash Flows Applicable to the Federal USF

For the Year Ended December 31, 2013 | (Unaudited - in thousands)

2013					
	SCHOOLS AND LIBRARIES	HIGH COST	LIFELINE	RURAL HEALTH CARE	TOTAL USF
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from contributors	\$ 2,404,825	\$ 4,489,827	\$ 1,694,773	\$ 176,685	\$ 8,766,110
Interest paid	(13,206)	(7,344)	979	1,137	(18,434)
Cash paid to service providers	(2,185,010)	(4,165,519)	(1,781,297)	(155,373)	(8,287,199)
Cash paid for administrative costs	(151,037)	51,770	13,843	(21,788)	(107,212)
Interfund transfers	0	0	0	0	0
Net cash provided by (used in) operating activities	55,572	368,734	(71,702)	661	353,265
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investments	4,779,226	0	0	0	4,779,226
Purchase of investments	(5,081,779)	0	0	0	(5,081,779)
Net cash used in investing activities	(302,553)	0	0	0	(302,553)
INCREASE (DECREASE) IN CASH EQUIVALENTS	(246,981)	368,734	(71,702)	661	50,712
CASH AND CASH EQUIVALENTS					
Beginning of year	(976,366)	1,086,231	187,296	351,739	648,900
END OF YEAR	\$ (1,223,347)	\$ 1,454,965	\$ 115,594	\$ 352,400	\$ 699,612
RECONCILIATION OF CHANGES IN NET ASSETS PROVIDED BY (USED IN) CASH FROM OPERATING ACTIVITIES					
Change in net assets	\$ 96,415	\$ 272,794	\$ (162,820)	\$ 7,716	\$ 214,105
<i>Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:</i>					
Bad debt expense	(289,492)	308,587	(57,091)	(4,589)	(42,585)
Amortized discount or premium	(33,840)	0	0	0	(33,840)
Unrealized/realized gain or loss	4,703	(9)	(2)	(3)	4,689
<i>Changes in operating assets and liabilities</i>					
Decrease (increase) in interest receivable	4,795	(11,066)	271	19	(5,981)
Decrease (increase) in accounts receivable	342,704	(359,627)	116,556	4,941	104,574
Decrease (increase) in receivable from USAC	(86,761)	72,449	23,542	(9,230)	0
Decrease (increase) in other assets	0	0	0	0	0
Increase (decrease) in liabilities	17,048	85,606	7,842	1,807	112,303
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 55,572	\$ 368,734	\$ (71,702)	\$ 661	\$ 353,265

Note — This schedule represents the cash flows applicable to the Federal USF at December 31, 2013, for each of the support programs.

REPORT OF INDEPENDENT AUDITORS

DP George & Company

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

To the Board of Directors of Universal Service Administrative Company:

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Universal Service Administrative Company (the Company), which comprise the statement of financial position as of December 31, 2012 and 2011, and the related statements of operations and change in unrestricted net assets, and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Our audit was conducted for the purpose of forming an opinion on the basic financial statements 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 financial statements. These schedules are the responsibility of the Company's management. Such schedules have not been subject to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on them.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with Government Auditing Standards, we have also issued our report dated June 7, 2013 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Company's internal control over financial reporting and compliance.

DP George & Company, LLC

DP George & Company, LLC
Alexandria, VA
June 7, 2013

Statements of Financial Position

As of December 31, 2012 and 2011 | (in thousands)

	2012	2011
ASSETS		
Current Assets		
Cash	\$ 3,899	\$ 3,624
Receivable from the Federal USF	9,125	9,229
Prepaid expenses and other current assets	2,864	945
Assets held for the Federal USF (Note 3)	4,601,939	3,717,750
Total Current Assets	4,617,827	3,731,548
Fixed Assets, net, held for Federal USF (Note 4)	5,486	6,970
Other Assets	344	354
Assets held for the Federal USF (Note 3)	2,769,040	2,932,730
TOTAL	\$ 7,392,697	\$ 6,671,602
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 5,004	\$ 3,634
Advance from the Federal USF	13,024	13,024
Deferred revenue	524	2,941
Liabilities related to assets held for the Federal USF	4,601,939	3,717,750
Total Current Liabilities	4,620,491	3,737,349
Deferred Rent	3,166	1,523
Liabilities related to assets held for the Federal USF	2,769,040	2,932,730
Commitments and contingencies (Note 7)	0	0
TOTAL	\$ 7,392,697	\$ 6,671,602
Unrestricted Net Assets	\$ 0	\$ 0

Statements of Operations and Change in Unrestricted Net Assets

For the Years Ended December 31, 2012 and 2011 | (in thousands)

	2012	2011
REVENUE	\$ 110,880	\$ 106,747
Operating Expenses		
Contractual expenses	51,384	55,349
Personnel and related expense	35,820	30,348
General and administrative	19,081	14,901
Depreciation, amortization and gain/loss on retirements	4,595	6,149
Total Operating Expenses	110,880	106,747
Change in Unrestricted Net Assets	0	0
Unrestricted Net Assets — Beginning of Year	0	0
UNRESTRICTED NET ASSETS — END OF YEAR	\$ 0	\$ 0

The accompanying notes, beginning on page 25, are an integral part of these financial statements.

Statements of Cash Flows

For the Years Ended December 31, 2012 and 2011 | (in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from the Federal USF and other parties	\$ 108,567	\$ 106,185
Cash paid for operating expenses and employees	(105,239)	(101,254)
Net cash provided by (used in) operating activities	3,328	4,931
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(3,053)	(2,153)
Increase (Decrease) in Cash	275	2,778
Cash — Beginning of Year	3,624	846
CASH — END OF YEAR	\$ 3,899	\$ 3,624
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Change in net assets	\$ 0	\$ 0
<i>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</i>		
Depreciation and amortization	4,587	6,452
(Gain) Loss on retirement of fixed assets	8	(303)
<i>Changes in operating assets and liabilities:</i>		
(Increase) in prepaid expense and other assets	(1,908)	(311)
(Increase) in assets held for the Federal USF	(720,499)	(189,729)
Decrease in receivable from the Federal USF	104	2,949
Increase (Decrease) in accounts payable and accrued liabilities	1,311	(695)
(Decrease) in deferred revenue	(2,417)	(3,511)
Increase in deferred rent	1,643	350
Increase in liabilities related to assets held for the Federal USF	720,499	189,729
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 3,328	\$ 4,931
<i>Supplemental disclosure of non-cash information:</i>		
Non-monetary like kind exchange	\$ 0	\$ 390
Capital expenditures included in accounts payable	\$ 135	\$ 78

The accompanying notes, beginning on page 25, are an integral part of these financial statements.

Notes to Financial Statements

As of And For the Years Ended December 31, 2012 and 2011

1 ORGANIZATION AND BASIS OF PRESENTATION

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

The FCC, in its Report and Order in CC Docket Nos. 96-45 and 97-21 (“Universal Service Order”) released May 8, 1997 and November 20, 1998, respectively, determined that USAC should serve as the permanent administrator of the High Cost, Low Income, Rural Health Care, and Schools and Libraries Universal Service Support Mechanisms, collectively referred to herein as the “Programs,” established pursuant to Section 254 of the Communications Act of 1934, as amended.

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

The functions of USAC as the administrator of the USF also include, but are not limited to, development of applications and associated instructions as needed for the Programs, administering the application process consistent with applicable FCC rules and related operational infrastructure for such processes, performing outreach and public education

functions, performing audits of contributing telecommunications carriers reporting information to USAC as required under 47 C.F.R. Part 54, Subpart H, performing audits of telecommunications carriers receiving High Cost and/or Low Income Program benefits, and schools, libraries, and rural health care providers and beneficiaries receiving program benefits, and development and implementation of other functions unique to the Programs.

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

NECA, a related party to USAC, performs data collection functions for the High Cost Program pursuant to FCC rules and bills USAC for the associated costs. NECA is compensated by USAC in accordance with NECA’s Cost Accounting and Procedures Manual. For the years ended December 31, 2012 and 2011, the expense recognized for services rendered by NECA was \$450,255 and \$427,501, respectively. These expenses are included in contractual expenses in the accompanying Statements of Operations and Change in Unrestricted Net Assets. At December 31, 2012 and 2011, amounts due to NECA were \$81,890 and \$46,748, respectively.

The accompanying financial statements have been prepared on the accrual basis of accounting, in conformity with the accounting principles generally accepted in the United States of America.

2 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Receivable from the Federal USF — USAC bills the USF monthly on the basis of net cash disbursements. Collections against the

receivable are collected in full from the USF by USAC at the beginning of the subsequent month.

Advance from the Federal USF — Represents cash advanced by the USF that allows USAC to make operating disbursements without placing USAC in a negative cash position. The amount is subject to adjustment to account for expected increases or decreases in cash-flow requirements.

Deferred Revenue — Represents the portion of revenues billed and/or collected through the Receivable from the Federal USF process where the corresponding expense is being recognized on the accrual basis and lags behind the disbursement used to bill revenue. Deferred revenue is typically generated by capital or prepaid disbursements.

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

Concentration of Credit Risk — Financial instruments that potentially subject USAC, as the administrator of the USF, to concentration of credit risk consist principally of cash, cash equivalents, short-term and long-term investments, and receivables from contributors. USAC, as the administrator of the USF, places its cash, cash equivalents, and short-term and long-term investments with high quality credit institutions. USAC, as the administrator of the

USF, 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 \$650 million by securities which consist primarily of United States Treasury debt securities. USAC has not experienced any losses on its cash and cash equivalents. In the normal course, USAC also has invested cash held for the benefit of the USF in U.S. Treasury securities, which are classified under Assets held for the Federal USF.

3 ACTIVITIES RELATED TO THE FEDERAL USF

As discussed in Note 1, the cash and other financial assets of the USF, which USAC administers and acts as an intermediary for, are reported at fair value in the Statements of Financial Position as assets held for the Federal USF, with an equal amount recorded as liabilities related to assets held for the Federal USF. The summary of assets applicable to the USF included below provides additional detail with respect to these amounts.

	DECEMBER 31	
In thousands	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 648,899	\$ 490,948
Investments	3,115,103	2,269,145
Accounts receivable	1,391,688	1,478,527
Allowance for doubtful accounts	(558,781)	(528,263)
Interest receivable	5,030	7,393
Total Current Assets held for the Federal USF	\$ 4,601,939	\$ 3,717,750
Fixed Assets	5,486	6,970
Investments	2,769,040	2,932,730
Total Assets Held for Federal USF	\$ 7,376,465	\$ 6,657,450

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, 2012 and 2011, there were \$3.12 billion and \$2.27 billion in short-term investments, respectively.

Long-Term Investments — USAC, as the administrator of the USF, considers all securities purchased with a current maturity of greater than one year to be long-term investments. These investments are accounted for in accordance with fair value measurement accounting standards. Long-term investments consist primarily of United States Treasury debt securities with readily determinable fair values, none of which have maturities greater than three years. At December 31, 2012 and 2011, there were \$2.77 billion and \$2.93 billion in long-term investments, respectively.

Accounts Receivable and Allowance for Doubtful Accounts — USAC, as the administrator of the USF, recognizes accounts receivable arising from amounts billed to contributors and the recovery of funds from service providers and beneficiaries, which remain unpaid. Accounts receivable are recorded at invoiced amounts and generally do not bear interest. Based on the Debt Collection Improvement Act ("DCIA"), all receivables over 90-days delinquent are transferred to the United States Treasury 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 Treasury remain as USF receivables. All receipts of DCIA transferred receivables are held by USAC for the benefit of the USF and, if collected, are transferred by the FCC to USAC for the benefit of the USF.

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

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

4 FIXED ASSETS

Fixed Assets as of December 31, 2012 and 2011 are as follows:

	DECEMBER 31	
In thousands	2012	2011
FIXED ASSETS		
Office furniture	\$ 2,378	\$ 2,017
Office equipment	225	229
Computer hardware	6,592	3,267
Computer software	23,056	23,792
Leasehold improvements	2,405	1,900
Projects in progress	48	712
Total Fixed Assets	\$ 34,704	\$ 31,917
Less accumulated depreciation and amortization	(29,218)	(24,947)
Net Fixed Assets	\$ 5,486	\$ 6,970

Depreciation and amortization expense was \$4,587 and \$6,452 for the years ended December 31, 2012 and 2011, respectively.

5 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

USAC, as the administrator of the USF, 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, 2012:

In thousands	US Treasuries
Total	\$ 5,884,143
Active Markets for Identical Assets (Level 1)	\$ 5,884,143
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, 2011:

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

6 INCOME TAXES

USAC is a not-for-profit corporation subject to income taxes, including those that arise from the permanent and temporary differences between financial and tax accounting related to meals and entertainment expense, compensated absences and depreciation.

Income taxes for 2012 and 2011 are not material and are included as a component of general and administrative expenses.

7 COMMITMENTS AND CONTINGENCIES

Fixed Contract Commitments

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

Solix Agreement — Solix, Inc. provides to USAC contracted program operations services for the Schools and Libraries and Rural Health Care Programs. On March 27, 2012, USAC signed a contract extension with Solix for a period of two years or until June 30, 2014. The future contractual required payments for the period January 1, 2013 through June 30, 2014, under the Agreement for both the Schools and Libraries and Rural Health Care Programs total \$62.2 million.

Lease Commitments

USAC leases its office space under an operating lease agreement expiring on November 30, 2020. At December 31, 2012, the future minimal rental payments under these leases are as follows (in thousands):

2013	\$ 3,161
2014	3,241
2015	2,893
2016	3,705
2017	3,808
2018	3,904
2019	4,002
2020	3,754
TOTAL	\$ 28,468

Rent expenses under operating leases were \$3.2 million and \$2.7 million for the years ended December 31, 2012 and 2011, respectively.

Legal Disputes

The Company (USAC) 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 \$500,000 or more for an individual matter, or for matters relating to the same plaintiff or defendant that in the aggregate amount to \$500,000 or more. The Company reports the following matters:

- A complaint was filed against the Company on December 28, 2007 by a Schools and Libraries Support Mechanism service provider (plaintiff) in Texas alleging the Company failed to make payments on approved funding requests for a support mechanism applicant. Plaintiff seeks to recover liquidated damages of approximately \$778,000 plus exemplary damages of three times this amount. On September 22, 2008, the United States District Court for the Southern District of Texas dismissed plaintiff’s claim without prejudice. Plaintiff appealed the district court’s decision to the United States Court of Appeals for the Fifth Circuit. In addition, plaintiff appealed the

Company’s decision to withhold program funding to the Federal Communications Commission pursuant to 47 C.F.R. Part 54, Subpart I. On August 28, 2009, the FCC Wireline Competition Bureau (Bureau) released an order (DA 09-1946) affirming the Company’s decision and directing plaintiff and the Company to take certain actions toward resolving the matter. Plaintiff then filed a Petition for Reconsideration of a portion of the Bureau’s decision with the Commission on September 27, 2009. On July 1, 2010, the Deputy Chief of the Bureau released an order (DA 10-1244) denying plaintiff’s petition for reconsideration of the Bureau’s August 28, 2009 decision. On July 30, 2010, plaintiff filed a petition requesting that the FCC reverse the Bureau’s July 1, 2010 order. On January 10, 2012, the FCC issued an order (FCC 12-08) denying plaintiff’s petition and holding that Company acted appropriately. On March 8, 2012, the Fifth Circuit Court of Appeals vacated the district court’s dismissal of plaintiff’s complaint and remanded the case back to the district court for adjudication of the state law tort claims. On July 7, 2012, the Company answered plaintiff’s amended complaint and also filed a motion requesting the court grant summary judgment in Company’s favor. The matter is now pending before the court.

At the present time the Company is unable to estimate whether an unfavorable outcome is likely in the matter pending before the court or the amount or range of potential loss, if any.

- 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 remained in the district court for adjudication. On December 3, 2010, the parties agreed to suspend the litigation for six months to provide the Company an opportunity to review and approve or deny payments of outstanding invoices submitted by plaintiff for services provided to the Houston and Dallas school districts. The Company completed the invoice reviews and issued denials of payment and rescission of commitments notices to plaintiff on March 29, 2011.

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

investigation. Plaintiff claims that the Company failed to disclose the real reason for the hold on plaintiff’s invoices, which caused plaintiff to complete work for HISD that it would not have performed if it had known the real reason for the payment hold.

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

In addition, on June 3, 2011, plaintiff filed an amended complaint alleging claims for unjust enrichment, negligent misrepresentation and fraud based upon the same general allegation of misrepresentation contained in its petition for review to the FCC. In response to the amended complaint, on June 27, 2011, the Company filed a motion requesting the court dismiss the complaint because plaintiff should be required to exhaust its administrative remedies before the FCC in this matter, which it has not yet done, and the FCC has primary jurisdiction to interpret its program rules. Plaintiff filed a response to the Company’s motion on August 8, 2011. The Company filed a reply to plaintiff’ response on September 7, 2011. With the issuance of the FCC order on November 28, 2011, plaintiff has effectively exhausted its administrative remedies. Plaintiff appealed the FCC’s November 28, 2011 order to the United States Court of Appeals for the Fifth Circuit. On July 5, 2012, Plaintiff and the Company agreed to suspend the litigation in the district court until the Fifth Circuit Court of Appeals ruled on Plaintiffs’ appeal

of the FCC’s order issued on November 28, 2011. On November 6, 2012, the Fifth Circuit Court of Appeals rejected the petition for review by Plaintiff of the FCC’s order. Plaintiff subsequently agreed to dismiss its complaint with prejudice against USAC in the bankruptcy court. This matter is now closed and will not be reported in the future. The United States Department of Justice has also filed a related \$20 million claim against plaintiff for violations of the Federal False Claims Act.

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

8 RETIREMENT PLANS

USAC has a 401(k) Retirement Savings Plan covering all USAC employees. The plan is both contributory and noncontributory and all contributions are subject to certain limitations as prescribed by the plan document and government regulations. Employees are immediately vested in the employer contribution, which is funded on a current basis. Employer contributions charged to operations were \$2.8 million and \$2.4 million through December 31, 2012 and 2011, respectively.

9 SUBSEQUENT EVENTS

USAC has performed an evaluation of subsequent events through June 7, 2013 which is the date the financial statements were available to be issued.

Banking Agreement — USAC has selected Bank of America to continue as its banking and investment management services provider, effective July 1, 2013. The agreement is a 2-year contract, with 3 one-year options.

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

As of December 31, 2012 and 2011 | (Unaudited - in thousands)

	2012					2011						
	SCHOOLS AND LIBRARIES	HIGH COST	HIGH COST - BROADBAND	LIFELINE	RURAL HEALTH CARE	TOTAL USF	SCHOOLS AND LIBRARIES	HIGH COST	HIGH COST - BROADBAND	LOW INCOME	RURAL HEALTH CARE	TOTAL USF
ASSETS												
Cash and cash equivalents	\$(976,366)	\$ 209,006	\$ 877,225	\$ 187,296	\$ 351,739	\$ 648,900	\$(477,168)	\$ 63,206	\$ 485,565	\$ 27,681	\$ 391,664	\$ 490,948
Investments	5,884,144	0	0	0	0	5,884,144	5,201,875	0	0	0	0	5,201,875
Receivables	522,675	575,371	0	283,883	9,758	1,391,687	675,529	566,111	0	230,135	6,752	1,478,527
Allowance for doubtful accounts	(289,492)	(207,609)	0	(57,091)	(4,589)	(558,781)	(328,184)	(149,292)	0	(47,345)	(3,442)	(528,263)
Interest receivable	4,795	(55)	0	271	19	5,030	5,968	611	0	334	480	7,393
Assets held for the Federal USF	5,145,756	576,713	877,225	414,359	356,927	7,370,980	5,078,020	480,636	485,565	210,805	395,454	6,650,480
Receivable from USAC	(83,191)	79,432	0	25,831	(9,048)	13,024	(83,191)	79,432	0	25,831	(9,048)	13,024
Receivable from Programs	0	0	0	0	0	0	0	47,000	0	(47,000)	0	0
TOTAL	\$ 5,062,565	\$ 656,145	\$ 877,225	\$ 440,190	\$ 347,879	\$ 7,384,004	\$ 4,994,829	\$ 607,068	\$ 485,565	\$ 189,636	\$ 386,406	\$ 6,663,504
LIABILITIES												
Payable to service providers	\$(14,993)	\$(2,897)	\$ 0	\$(2,881)	\$(23)	\$(20,794)	\$(20,853)	\$(50)	\$ 0	\$(3,174)	\$(1,071)	\$(25,148)
Accrued liabilities	(11,279)	(370,217)	0	(198,068)	(646)	(580,210)	(11,021)	(362,266)	0	(178,160)	(427)	(551,874)
TOTAL	\$(26,272)	\$(373,114)	\$ 0	\$(200,949)	\$(669)	\$(601,004)	\$(31,874)	\$(362,316)	\$ 0	\$(181,334)	\$(1,498)	\$(577,022)

Note — This schedule represents the assets and liabilities of the Federal USF at December 31, 2012 and 2011, 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, 2012 and 2011 | (Unaudited - in thousands)

	2012					2011				
	SCHOOLS AND LIBRARIES	HIGH COST	LIFELINE	RURAL HEALTH CARE	TOTAL USF	SCHOOLS AND LIBRARIES	HIGH COST	LOW INCOME	RURAL HEALTH CARE	TOTAL USF
ADDITIONS										
Amounts billed to contributors	\$ 2,379,504	\$ 4,625,065	\$ 2,452,194	\$ 127,374	\$ 9,584,137	\$ 2,246,400	\$ 4,434,568	\$ 1,657,913	\$ 92,770	\$ 8,431,651
Non exchange revenue bad debt	(11,297)	(22,727)	(10,632)	(635)	(45,291)	(4,219)	(8,123)	(4,005)	(163)	(16,510)
Interest income	13,263	7,846	522	4,953	26,584	13,830	5,803	331	5,133	25,097
Total additions	2,381,470	4,610,184	2,442,084	131,692	9,565,430	2,256,011	4,432,248	1,654,239	97,740	8,440,238
DEDUCTIONS										
Amount paid and due to service providers	2,275,335	4,131,565	2,204,537	154,956	8,766,393	2,108,462	4,012,817	1,748,618	140,709	8,010,606
Bad debt expenses	(49,989)	35,590	(886)	513	(14,772)	148,973	14,926	16,844	319	181,062
Operating expenses	69,974	16,709	7,457	13,870	108,010	69,575	15,718	5,178	12,775	103,246
Unrealized/realized gain or loss	(4,622)	0	0	0	(4,622)	(16,822)	0	0	0	(16,822)
Total deductions	2,290,698	4,183,864	2,211,108	169,339	8,855,009	2,310,188	4,043,461	1,770,640	153,803	8,278,092
CHANGES IN NET ASSETS	\$ 90,772	\$ 426,320	\$ 230,976	\$(37,647)	\$ 710,421	\$(54,177)	\$ 388,787	\$(116,401)	\$(56,063)	\$ 162,146

Note — This schedule represents the changes in net assets of the Federal USF for the years ended December 31, 2012 and 2011, for each of the support programs.

Combining Supplemental Schedules of Cash Flows Applicable to the Federal USF

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

	2012				
	SCHOOLS AND LIBRARIES	HIGH COST	LIFELINE	RURAL HEALTH CARE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from contributors	\$ 2,533,493	\$ 4,619,390	\$ 2,398,408	\$ 124,292	\$ 9,675,583
Interest received	18,395	8,546	586	5,438	32,965
Cash paid to service providers	(2,280,936)	(4,120,767)	(2,184,922)	(155,785)	(8,742,410)
Cash paid for administrative costs	(69,974)	(16,709)	(7,457)	(13,870)	(108,010)
Interfund transfers	0	47,000	(47,000)	0	0
Net cash provided by (used in) operating activities	200,978	537,460	159,615	(39,925)	858,128
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investments	3,741,480	0	0	0	3,741,480
Purchase of investments	(4,441,656)	0	0	0	(4,441,656)
Net cash used in investing activities	(700,176)	0	0	0	(700,176)
INCREASE (DECREASE) IN CASH EQUIVALENTS	(499,198)	537,460	159,615	(39,925)	157,952
CASH AND CASH EQUIVALENTS					
Beginning of year	(477,168)	548,771	27,681	391,664	490,948
END OF YEAR	\$ (976,366)	\$ 1,086,231	\$ 187,296	\$ 351,739	\$ 648,900
RECONCILIATION OF CHANGES IN NET ASSETS PROVIDED BY (USED IN) CASH FROM OPERATING ACTIVITIES					
Change in net assets	\$ 90,772	\$ 426,320	\$ 230,976	\$ (37,647)	\$ 710,421
<i>Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:</i>					
Bad debt expense	(38,693)	58,317	9,746	1,147	30,517
Amortized discount	3,939	0	0	0	3,939
Unrealized/realized gain or loss	(4,622)	0	0	0	(4,622)
<i>Changes in operating assets and liabilities:</i>					
Decrease (increase) in interest receivable	1,193	700	64	485	2,442
Decrease (increase) in accounts receivable	153,990	(5,675)	(53,786)	(3,081)	91,448
Decrease (increase) in receivable from USAC	0	0	0	0	0
Decrease (increase) in other assets	0	0	0	0	0
Increase (decrease) in liabilities	(5,601)	10,798	19,615	(829)	23,983
Interfund Transfers	0	47,000	(47,000)	0	0
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 200,978	\$ 537,460	\$ 159,615	\$ (39,925)	\$ 858,128

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

Combining Supplemental Schedules of Cash Flows Applicable to the Federal USF

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

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

Note — This schedule represents the cash flows of the Federal USF for the year ended December 31, 2011, for each of the support programs.

INDEPENDENT AUDITOR'S REPORT

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

DP George & Company

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

To the Board of Directors of Universal Service Administrative Company:

We have audited, in accordance with the 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, the financial statements of Universal Service Administrative Company (the Company) which comprise the statement of financial position as of December 31, 2012, and the related statements of operations and change in unrestricted net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 7, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Company's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DP George & Company, LLC

DP George & Company, LLC
Alexandria, Virginia
June 7, 2013

2013 UNIVERSAL SERVICE PROGRAM STATISTICS

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

FUNDING YEAR

For the Rural Health Care and Schools and Libraries programs, a funding year runs from July 1 to June 30 of the following year.

CALENDAR YEAR

The High Cost and Lifeline programs disburse funds on a calendar year basis. Data in these tables are for calendar year 2013.

APPROVED DISBURSEMENTS

Approved disbursement totals represent support for the months of January through December 2013 for the High Cost and Lifeline programs. Approved disbursement totals represent support authorized during the months of January through December 2013 for the Rural Health Care and Schools and Libraries programs. Final disbursement totals could 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

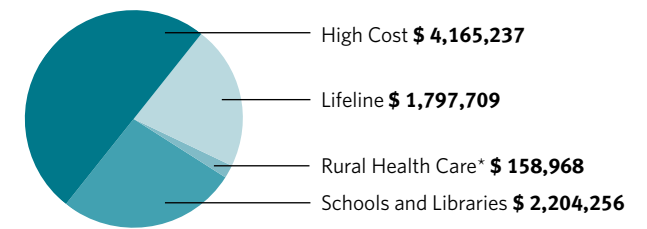
Funding commitments are not disbursements. Funding commitments are issued by the Rural Health Care and Schools and Libraries programs via commitment letters that approve what will be funded through support for a particular funding year.

Commitments made in calendar year 2013 may be for applications filed during previous funding years and the current funding year.

RURAL HEALTH CARE AND SCHOOLS AND LIBRARIES PROGRAMS

Period	Start Date	End Date
Funding Year 2011	July 1, 2011	June 30, 2012
Funding Year 2012	July 1, 2012	June 30, 2013
Funding Year 2013	July 1, 2013	June 30, 2014

2013 Approved Disbursements by Program (Unaudited - in thousands)



Total \$8,326,170

*Includes RHC Pilot Program disbursements.

High Cost Program

Approved Disbursements by Component, 2013 | (Unaudited - in thousands)

State	CONNECT AMERICA FUND				High Cost Loop	High Cost Model	Interstate Access Support	Interstate Common Line Support	Local Switching Support	Total 2013	Total 1998–2013	State
	Frozen Support	Incremental Support	Intercarrier Compensation	Phase I Mobility Fund								
Alabama	\$ 52,298	\$ 97,998	\$ 12,017	\$ 3,412	\$ 10,485	\$ 14	\$ 3	\$ 13,888	-\$ 234	\$ 189,882	\$ 1,557,482	Alabama
Alaska	51,603	174	6,981	0	59,894	0	0	52,908	9,587	181,147	2,113,835	Alaska
American Samoa	1,889	0	429	0	0	0	0	560	326	3,204	34,812	American Samoa
Arizona	21,550	17,319	5,745	0	24,396	0	0	14,543	-2,598	80,954	1,021,865	Arizona
Arkansas	42,337	7,974	7,445	0	15,962	0	0	13,452	-821	86,349	1,720,302	Arkansas
California	40,098	0	2,832	0	25,398	0	0	19,166	-714	86,780	1,402,418	California
Colorado	45,333	2,463	2,552	5,479	12,324	0	0	8,227	-622	75,757	1,131,995	Colorado
Connecticut	464	0	0	0	0	0	0	0	0	464	17,563	Connecticut
Delaware	228	0	0	0	0	0	0	0	0	228	6,855	Delaware
District of Columbia	0	0	0	0	0	0	0	0	0	0	0	District of Columbia
Florida	48,329	2,590	9,938	0	1,704	0	3	2,947	-169	65,341	1,077,469	Florida
Georgia	44,499	16,814	19,025	412	23,868	0	42	29,139	-2,922	130,877	1,733,059	Georgia
Guam	6,306	0	828	0	6	0	0	5,609	167	12,916	167,368	Guam
Hawaii	8,696	1,021	1,771	0	7,671	0	-4	4,611	849	24,614	469,207	Hawaii
Idaho	21,896	0	4,557	0	10,336	0	0	7,730	1,541	46,061	762,635	Idaho
Illinois	28,645	-111	8,169	1,194	13,911	0	-3	18,444	-1,263	68,986	908,381	Illinois
Indiana	15,986	61	5,786	0	31,502	0	0	27,719	-182	80,872	923,367	Indiana
Iowa	44,109	3,467	16,954	546	29,097	0	-32	38,783	1,297	134,220	1,425,885	Iowa
Kansas	32,219	174	5,526	0	74,409	0	1	43,736	2,589	158,653	2,382,564	Kansas
Kentucky	45,827	5,712	29,835	2,333	20,221	-13	-16	28,121	-1,139	130,883	1,229,152	Kentucky
Louisiana	59,378	1,246	2,558	1,079	19,280	0	0	11,155	-71	94,624	1,742,957	Louisiana
Maine	15,609	903	2,404	473	952	0	0	5,341	-332	25,352	463,391	Maine
Maryland	2,303	0	399	0	0	0	0	807	-109	3,401	54,125	Maryland
Massachusetts	1,467	0	464	0	0	0	0	211	-68	2,074	65,997	Massachusetts
Michigan	13,939	20	3,884	0	6,243	0	2	10,197	-256	34,028	767,213	Michigan
Minnesota	15,019	409	19,307	0	26,286	0	4	40,299	888	102,213	1,467,492	Minnesota
Mississippi	185,321	2,039	5,586	610	8,047	404	29	6,892	-618	208,310	3,148,522	Mississippi
Missouri	38,567	3,940	13,684	0	27,747	0	12	22,182	405	106,537	1,414,564	Missouri
Montana	23,058	11	9,168	621	28,912	2	0	26,345	-354	87,762	1,128,150	Montana
Nebraska	22,145	874	9,731	2,085	22,378	120	90	19,678	-4,166	72,934	1,026,651	Nebraska
Nevada	11,684	14	2,208	7,020	4,473	0	0	5,299	-539	30,159	386,508	Nevada
New Hampshire	1,576	740	2,400	0	403	0	1	3,992	-69	9,043	151,343	New Hampshire
New Jersey	258	25	269	0	0	0	0	291	-141	702	31,676	New Jersey
New Mexico	17,793	1,241	4,496	5,965	31,274	0	4	16,742	-129	77,386	941,557	New Mexico
New York	22,835	2,787	6,948	0	2,225	0	19	9,565	-1,617	42,762	764,993	New York
North Carolina	37,241	10,158	21,882	8,238	4,792	0	-3	23,306	-365	105,249	1,089,755	North Carolina
North Dakota	30,397	0	13,146	857	22,174	0	2	28,663	512	95,751	1,040,563	North Dakota
Northern Mariana Islands	1,362	0	0	422	0	0	0	0	5	1,787	36,803	Northern Mariana Islands
Ohio	12,664	2,242	11,985	0	6,325	0	0	10,233	215	43,663	542,308	Ohio
Oklahoma	41,363	1,692	12,569	3,188	37,583	0	2	36,093	-564	131,927	1,787,113	Oklahoma
Oregon	32,888	883	7,062	3	17,058	0	0	16,191	505	74,590	1,079,322	Oregon
Pennsylvania	55,136	5,255	19,822	2,650	606	0	0	7,894	294	91,658	852,938	Pennsylvania
Puerto Rico	128,434	31,570	0	0	0	0	0	0	0	160,005	2,218,555	Puerto Rico
Rhode Island	30	0	0	0	0	0	0	0	0	30	579	Rhode Island
South Carolina	14,881	1,938	21,237	0	25,080	0	5	38,748	80	101,968	1,286,720	South Carolina
South Dakota	3,142	0	13,135	756	29,062	27	0	28,269	-1,110	73,281	970,157	South Dakota
Tennessee	15,570	413	12,479	736	10,148	0	0	32,341	-144	71,542	823,997	Tennessee
Texas	68,480	12,466	14,189	6,384	87,453	0	36	59,029	116	248,154	3,385,764	Texas
Utah	3,022	0	3,610	0	4,893	0	0	11,086	-658	21,952	317,016	Utah
Vermont	8,616	0	4,522	0	698	0	0	5,736	-279	19,293	386,113	Vermont
Virgin Islands	16,439	0	0	0	913	0	0	-788	0	16,564	350,867	Virgin Islands
Virginia	49,444	2,718	13,961	4,138	1,491	0	-12	10,187	-28	81,898	1,045,476	Virginia
Washington	51,238	1,082	6,803	3,380	6,254	0	-26	8,048	243	77,021	1,270,967	Washington
West Virginia	39,646	61,386	2,076	3,537	1,551	0	0	2,886	186	111,269	1,009,542	West Virginia
Wisconsin	49,969	5,098	15,751	1,014	25,239	0	0	38,549	-545	135,076	1,750,741	Wisconsin
Wyoming	19,691	11	3,799	7,611	8,344	0	0	7,481	146	47,083	730,488	Wyoming
TOTAL	\$ 1,662,921	\$ 306,813	\$ 421,924	\$ 74,143	\$ 829,071	\$ 553	\$ 159	\$ 872,528	-\$ 2,875	\$ 4,165,237	\$ 55,617,163	TOTAL

Note — High Cost Model and Interstate Access Support were eliminated in January 2012; Local Switching Support was eliminated in July 2012. Approved disbursements reported for those components and any negative amounts are due to prior period adjustments made in 2013. Numbers may not add due to rounding.

High Cost Program

Approved Disbursements by Carrier Type, 2013 | (Unaudited - in thousands)

State	INCUMBENT CARRIERS			Total 2013
	Competitive Carriers	Price Cap/Rate of Return Affiliates	Rate of Return	
Alabama	\$ 10,333	\$ 144,991	\$ 34,558	\$ 189,882
Alaska	107,472	19,458	54,217	181,147
American Samoa	1,889	0	1,314	3,204
Arizona	5,583	33,748	41,622	80,954
Arkansas	3,440	49,339	33,570	86,349
California	45	39,933	46,802	86,780
Colorado	12,535	41,542	21,680	75,757
Connecticut	0	464	0	464
Delaware	0	228	0	228
District of Columbia	0	0	0	0
Florida	3,665	52,077	9,599	65,341
Georgia	11,177	57,660	62,041	130,877
Guam	6,306	0	6,610	12,916
Hawaii	6,728	2,989	14,897	24,614
Idaho	5,500	17,149	23,412	46,061
Illinois	11,263	18,779	38,944	68,986
Indiana	68	16,449	64,355	80,872
Iowa	36,431	14,363	83,426	134,220
Kansas	23,743	9,535	125,376	158,653
Kentucky	21,347	42,376	67,160	130,883
Louisiana	30,211	30,938	33,475	94,624
Maine	7,658	8,701	8,992	25,352
Maryland	0	2,303	1,098	3,401
Massachusetts	0	1,467	607	2,074
Michigan	5,119	9,214	19,695	34,028
Minnesota	1,620	15,088	85,506	102,213
Mississippi	102,944	85,718	19,649	208,310
Missouri	11,742	34,631	60,164	106,537
Montana	9,952	14,071	63,739	87,762
Nebraska	14,763	12,226	45,945	72,934
Nevada	8,523	10,687	10,949	30,159
New Hampshire	153	2,164	6,726	9,043
New Jersey	0	340	362	702
New Mexico	14,369	11,297	51,721	77,386
New York	1,708	26,129	14,925	42,762
North Carolina	10,820	54,878	39,551	105,249
North Dakota	31,078	520	64,153	95,751
Northern Mariana Islands	1,100	688	0	1,787
Ohio	0	20,550	23,113	43,663
Oklahoma	32,889	14,507	84,531	131,927
Oregon	13,363	20,961	40,267	74,590
Pennsylvania	2,886	75,757	13,016	91,658
Puerto Rico	92,380	67,624	0	160,005
Rhode Island	0	30	0	30
South Carolina	3,463	14,044	84,461	101,968
South Dakota	2,887	1,208	69,185	73,281
Tennessee	1,529	15,596	54,417	71,542
Texas	18,297	74,605	155,252	248,154
Utah	84	2,644	19,225	21,952
Vermont	19	8,650	10,623	19,293
Virgin Islands	78	16,485	0	16,564
Virginia	7,842	49,158	24,898	81,898
Washington	25,058	33,054	18,908	77,021
West Virginia	13,710	91,339	6,220	111,269
Wisconsin	28,229	29,422	77,425	135,076
Wyoming	14,400	12,923	19,760	47,083
TOTAL	\$ 776,399	\$ 1,430,696	\$ 1,958,142	\$ 4,165,237

Note — Numbers may not add due to rounding.

Lifeline Program

Approved Disbursements by Component, 2013 | (Unaudited - in thousands)

State	Lifeline	Link Up	Toll Limitation Service	Total 2013	Total 1998–2013
Alabama	\$ 26,711	-\$ 1	\$ 250	\$ 26,960	\$ 208,314
Alaska	18,376	49	25	18,450	185,620
American Samoa	85	0	0	85	946
Arizona	43,133	136	4	43,274	284,880
Arkansas	20,085	-11	6	20,079	155,682
California	141,333	0	87	141,420	3,989,438
Colorado	5,627	0	2	5,630	48,793
Connecticut	12,517	0	0	12,517	106,158
Delaware	3,658	0	0	3,658	15,933
District of Columbia	5,535	0	0	5,535	27,231
Florida	101,332	1	40	101,373	673,832
Georgia	78,594	-6	57	78,646	462,052
Guam	253	0	0	253	4,570
Hawaii	552	0	0	552	12,589
Idaho	2,408	0	2	2,411	47,104
Illinois	75,439	-1	78	75,516	374,537
Indiana	27,557	0	9	27,566	108,470
Iowa	8,121	0	2	8,123	68,494
Kansas	11,052	0	15	11,067	56,570
Kentucky	27,748	-1	65	27,812	147,520
Louisiana	42,356	-23	99	42,433	330,229
Maine	7,182	0	3	7,185	137,843
Maryland	37,629	-17	0	37,612	177,871
Massachusetts	32,560	0	0	32,561	307,405
Michigan	80,830	2	334	81,166	433,736
Minnesota	10,337	0	2	10,338	96,541
Mississippi	19,016	0	119	19,135	144,216
Missouri	24,684	52	29	24,765	150,476
Montana	2,054	20	18	2,092	40,873
Nebraska	1,492	0	2	1,495	28,129
Nevada	17,540	1	0	17,542	76,071
New Hampshire	2,392	0	0	2,392	15,590
New Jersey	33,168	0	1	33,169	252,756
New Mexico	14,679	65	9	14,752	157,349
New York	132,323	0	184	132,506	1,093,874
North Carolina	49,467	0	58	49,525	395,188
North Dakota	1,326	6	1	1,332	38,615
Northern Mariana Islands	200	0	0	200	1,741
Ohio	89,330	0	499	89,830	645,226
Oklahoma	199,198	-1,245	1,232	199,185	970,193
Oregon	8,829	0	4	8,833	83,950
Pennsylvania	70,537	0	2	70,539	349,384
Puerto Rico	34,961	0	0	34,960	303,471
Rhode Island	7,209	13	0	7,222	74,181
South Carolina	39,595	0	20	39,615	129,157
South Dakota	927	1	0	928	50,558
Tennessee	39,718	0	66	39,784	272,662
Texas	94,957	0	53	95,010	1,090,057
Utah	4,526	4	8	4,537	49,025
Vermont	1,807	0	1	1,808	43,375
Virgin Islands	210	0	0	210	1,082
Virginia	23,849	0	0	23,850	145,712
Washington	25,747	10	11	25,768	248,085
West Virginia	9,321	1	3	9,325	55,964
Wisconsin	25,001	2	8	25,011	167,014
Wyoming	165	0	0	166	7,935
TOTAL	\$ 1,795,240	-\$ 941	\$ 3,410	\$ 1,797,709	\$ 15,544,299

Note — Numbers may not add due to rounding. Negative amounts result from over-claimed support recovered after an audit.

Lifeline Program

Approved Disbursements by Carrier Type, 2013 | (Unaudited - in thousands)

State	Competitive Carriers	Incumbent Carriers	Total 2013
Alabama	\$ 24,430	\$ 2,530	\$ 26,960
Alaska	16,598	1,853	18,450
American Samoa	8	77	85
Arizona	40,053	3,221	43,274
Arkansas	18,625	1,455	20,079
California	21,839	119,581	141,420
Colorado	4,255	1,375	5,630
Connecticut	11,573	944	12,517
Delaware	3,587	71	3,658
District of Columbia	5,348	187	5,535
Florida	92,498	8,875	101,373
Georgia	74,196	4,449	78,646
Guam	49	204	253
Hawaii	115	437	552
Idaho	965	1,446	2,411
Illinois	72,660	2,856	75,516
Indiana	25,873	1,693	27,566
Iowa	6,647	1,476	8,123
Kansas	9,618	1,449	11,067
Kentucky	24,184	3,628	27,812
Louisiana	41,066	1,367	42,433
Maine	4,967	2,218	7,185
Maryland	37,199	413	37,612
Massachusetts	28,986	3,575	32,561
Michigan	78,106	3,061	81,166
Minnesota	7,173	3,166	10,338
Mississippi	17,214	1,921	19,135
Missouri	21,322	3,443	24,765
Montana	617	1,475	2,092
Nebraska	540	955	1,495
Nevada	16,155	1,387	17,542
New Hampshire	2,180	213	2,392
New Jersey	27,701	5,468	33,169
New Mexico	11,231	3,521	14,752
New York	115,885	16,622	132,506
North Carolina	44,074	5,451	49,525
North Dakota	201	1,131	1,332
Northern Mariana Islands	5	195	200
Ohio	80,301	9,529	89,830
Oklahoma	190,384	8,801	199,185
Oregon	5,461	3,373	8,833
Pennsylvania	64,736	5,803	70,539
Puerto Rico	28,807	6,153	34,960
Rhode Island	6,603	619	7,222
South Carolina	36,716	2,899	39,615
South Dakota	144	784	928
Tennessee	36,145	3,638	39,784
Texas	64,893	30,117	95,010
Utah	2,957	1,580	4,537
Vermont	1	1,807	1,808
Virgin Islands	163	47	210
Virginia	22,932	918	23,850
Washington	18,804	6,964	25,768
West Virginia	8,706	619	9,325
Wisconsin	22,240	2,771	25,011
Wyoming	19	147	166
TOTAL	\$ 1,497,753	\$ 299,956	\$ 1,797,709

Note — Numbers may not add due to rounding.

Rural Health Care Program

Commitments and Approved Disbursements, 2013 | (Unaudited - in thousands)

State	COMMITMENTS		APPROVED DISBURSEMENTS	
	Calendar Year 2013	Total 1998–2013	Calendar Year 2013	Total 1998–2013
Alabama	\$ 765	\$ 3,351	\$ 832	\$ 3,213
Alaska	46,855	365,369	36,838	342,765
American Samoa	294	1,454	21	1,072
Arizona	1,973	18,112	1,701	16,289
Arkansas	2,184	7,403	2,116	6,831
California	7,000	23,915	6,693	19,451
Colorado	179	2,433	106	2,273
Connecticut	8	8	8	8
Delaware	0	1	0	1
District of Columbia	0	0	0	0
Florida	273	3,852	266	3,583
Georgia	3,772	15,908	3,764	15,132
Guam	139	628	56	542
Hawaii	0	2,440	0	2,376
Idaho	400	3,275	495	2,917
Illinois	2,306	11,999	2,179	11,201
Indiana	712	5,550	755	5,251
Iowa	750	5,357	717	4,929
Kansas	677	5,355	642	5,158
Kentucky	1,352	7,562	1,289	7,056
Louisiana	460	1,873	489	1,786
Maine	34	529	30	418
Maryland	64	100	87	95
Massachusetts	108	848	110	848
Michigan	1,802	15,709	1,506	14,642
Minnesota	2,367	25,360	2,363	23,512
Mississippi	1,747	3,752	1,717	3,563
Missouri	1,196	5,198	1,135	4,764
Montana	604	8,607	634	8,266
Nebraska	1,295	15,872	1,493	15,410
Nevada	125	903	113	826
New Hampshire	36	164	35	153
New Jersey	0	0	0	0
New Mexico	1,034	6,981	1,095	6,467
New York	222	1,060	245	987
North Carolina	603	3,781	672	3,542
North Dakota	914	10,713	772	9,601
Northern Mariana Islands	11	18	9	9
Ohio	619	4,442	715	4,101
Oklahoma	3,024	9,162	2,930	8,070
Oregon	338	2,225	284	2,015
Pennsylvania	199	1,088	218	972
Puerto Rico	0	0	0	0
Rhode Island	0	0	0	0
South Carolina	69	444	91	427
South Dakota	694	9,674	579	9,053
Tennessee	644	3,265	532	3,024
Texas	5,371	16,959	4,907	14,982
Utah	376	7,650	723	7,296
Vermont	74	756	75	705
Virgin Islands	0	852	0	830
Virginia	1,769	9,632	1,923	8,552
Washington	281	1,486	259	1,315
West Virginia	212	1,866	257	1,799
Wisconsin	6,848	44,843	7,109	42,578
Wyoming	472	2,509	430	2,373
TOTAL	\$ 103,251	\$ 702,293	\$ 92,015	\$ 653,029

Note — Numbers may not add due to rounding.

Rural Health Care Pilot Program

Commitments and Approved Disbursements, 2013 | (Unaudited - in thousands)

State	COMMITMENTS				APPROVED DISBURSEMENTS	
	Funding Year 2007	Funding Year 2008	Funding Year 2009	Total Funding Years 2007–2009	Calendar Year 2013	Total 2008–2013
Alabama	\$ 0	\$ 0	\$ 2,749	\$ 2,749	\$ 594	\$ 2,482
Alaska	0	209	1,673	1,882	0	209
Arizona	0	0	7,511	7,511	2,083	2,083
Arkansas	0	0	4,218	4,218	1,741	2,212
California	0	0	22,911	22,911	305	584
Colorado	0	0	10,884	10,884	4,734	10,092
Florida	0	0	82	82	16	16
Georgia	0	0	2,233	2,233	550	2,105
Guam	0	0	89	89	62	62
Hawaii	0	0	4,653	4,653	706	1,827
Illinois	0	15	21,056	21,071	4,184	16,209
Indiana	0	0	15,458	15,458	4,544	8,709
Iowa	0	3,138	14,232	17,370	543	16,962
Kentucky	0	0	2,945	2,945	284	342
Louisiana	0	0	15,570	15,570	0	375
Maine	0	0	13,776	13,776	5,821	7,996
Massachusetts	0	0	87	87	0	0
Michigan	0	0	19,449	19,449	9,856	12,973
Minnesota	0	522	5,195	5,717	1,289	3,643
Missouri	0	287	2,251	2,538	584	1,912
Montana	0	3,373	12,040	15,413	314	9,785
Nebraska	0	148	17,862	18,010	2,149	18,006
New Hampshire	0	0	5,569	5,569	2,175	2,175
New Mexico	0	0	11,737	11,737	2,850	3,796
New York	0	98	15,394	15,492	3,736	8,122
North Carolina	0	0	12,169	12,169	2,849	5,685
North Dakota	0	0	912	912	183	347
Northern Mariana Islands	0	0	46	46	0	0
Ohio	0	0	27,209	27,209	628	26,362
Oregon	0	2,079	16,043	18,122	4,242	14,781
Pennsylvania	0	661	6,145	6,805	878	4,531
South Carolina	0	1,353	7,474	8,826	1,036	7,929
South Dakota	0	1,985	2,601	4,586	423	4,389
Tennessee	0	0	6,862	6,862	0	0
Texas	0	0	15,931	15,931	0	0
Utah	0	0	8,815	8,815	2,119	5,515
Vermont	0	0	6,004	6,004	3,108	3,120
Virginia	0	0	2,709	2,709	57	81
Washington	0	0	118	118	42	95
West Virginia	0	0	6,726	6,726	1,907	3,205
Wisconsin	467	854	992	2,312	140	2,123
Wyoming	0	0	797	797	221	659
TOTAL	\$ 467	\$ 14,721	\$ 351,177	\$ 366,365	\$ 66,953	\$ 211,499

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

Rural Health Care Pilot Program

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

Category of Service	Commitments for Funding Years 2007–2009
Network Design	\$ 1,881
Network Equipment, including Engineering and Installation	28,474
Infrastructure/Outside Plant (Engineering)	502
Infrastructure/Outside Plant (Construction)	38,895
Internet 2/NLR/Internet Connection	1,465
Leased/Tariffed facilities or services	278,628
Network Management/Maintenance/Operations Cost (not captured elsewhere)	16,518
TOTAL	\$ 366,365

Note — Numbers may not add due to rounding.

Schools and Libraries Program

Commitments and Approved Disbursements, 2013 | (Unaudited - in thousands)

State	COMMITMENTS			APPROVED DISBURSEMENTS		
	Funding Year 2013*	Calendar Year 2013	Total 1998–2013	Funding Year 2013*	Calendar Year 2013	Total 1998–2013
Alabama	\$ 26,215	\$ 52,531	\$ 603,522	\$ 1,833	\$ 36,812	\$ 487,949
Alaska	35,802	40,886	371,461	2,781	42,235	295,345
American Samoa	1,790	1,790	35,198	0	1,404	27,107
Arizona	42,379	84,782	947,271	2,022	58,642	664,996
Arkansas	17,598	22,008	357,971	1,727	27,814	235,449
California	233,101	557,556	5,468,255	12,275	342,723	3,803,774
Colorado	18,757	25,458	353,009	997	24,664	261,543
Connecticut	13,739	20,959	385,900	677	17,079	308,772
Delaware	3,964	3,965	30,226	21	1,810	21,037
District of Columbia	3,527	12,042	198,834	160	8,719	124,503
Florida	40,110	82,623	1,201,048	2,552	89,269	954,822
Georgia	62,180	112,588	1,229,835	5,924	81,153	948,547
Guam	658	658	25,991	2	686	18,441
Hawaii	7,941	15,998	84,927	37	4,319	37,957
Idaho	5,096	5,646	110,640	343	9,342	78,150
Illinois	53,343	137,444	1,603,246	1,929	90,616	1,155,302
Indiana	52,394	63,869	512,130	8,504	35,970	343,408
Iowa	14,456	18,536	200,728	2,570	15,069	143,727
Kansas	18,125	21,536	256,322	2,237	21,772	194,231
Kentucky	27,209	46,760	600,574	1,410	38,900	419,056
Louisiana	35,626	50,070	757,379	6,595	48,299	598,344
Maine	7,631	11,993	115,142	1,190	8,657	86,561
Maryland	20,391	35,843	337,855	542	23,448	248,278
Massachusetts	14,068	28,955	509,261	983	23,694	369,994
Michigan	40,533	73,678	929,424	2,906	47,153	674,478
Minnesota	22,839	46,149	407,598	1,433	29,938	307,185
Mississippi	28,348	44,852	551,425	1,394	31,887	400,177
Missouri	23,368	39,396	641,058	2,306	35,437	476,803
Montana	4,245	5,114	69,501	843	5,119	54,118
Nebraska	9,248	10,299	137,108	1,747	10,640	114,272
Nevada	9,117	14,787	99,509	101	5,960	64,790
New Hampshire	2,884	3,223	37,318	88	2,476	25,413
New Jersey	45,430	79,998	913,991	1,451	56,426	634,763
New Mexico	17,344	34,571	606,052	562	30,990	420,453
New York	73,208	169,274	4,327,041	2,223	102,920	2,733,693
North Carolina	69,877	94,616	901,494	6,698	77,255	688,805
North Dakota	4,940	5,341	64,062	1,083	4,006	51,355
Northern Mariana Islands	758	784	15,713	31	478	12,494
Ohio	53,480	89,387	1,198,182	3,054	70,641	875,943
Oklahoma	53,368	67,548	794,363	7,580	61,016	588,014
Oregon	11,378	16,869	233,564	339	16,941	173,642
Pennsylvania	53,365	94,991	1,213,470	3,095	64,782	944,629
Puerto Rico	9,514	19,248	381,189	2,670	23,095	240,002
Rhode Island	4,816	10,450	111,865	1,021	6,678	87,638
South Carolina	35,981	74,499	716,851	611	40,598	524,976
South Dakota	6,186	10,603	88,289	209	4,574	58,134
Tennessee	39,131	53,807	840,449	7,143	45,167	633,682
Texas	115,589	378,361	3,733,136	6,538	240,658	2,765,398
Utah	26,782	54,720	270,473	50	19,187	167,603
Vermont	2,998	3,210	34,941	143	2,694	22,587
Virgin Islands	3,772	9,747	81,439	603	6,967	67,632
Virginia	35,745	46,259	510,342	2,366	35,445	397,124
Washington	23,093	51,393	447,404	537	29,101	323,030
West Virginia	19,446	25,675	212,023	324	20,293	136,265
Wisconsin	18,923	21,076	446,926	899	18,524	339,126
Wyoming	1,243	2,722	55,900	42	4,117	41,614
TOTAL	\$ 1,623,046	\$ 3,107,143	\$ 37,368,823	\$ 117,400	\$ 2,204,256	\$ 26,873,130

*Funding Year data as of 12/31/2013. Funding Year 2013: July 1, 2013 - June 30, 2014.

Note — Numbers may not add due to rounding.

Schools and Libraries Program

Commitments by Discount Band, Funding Year 2013* | (Unaudited - in thousands)

Discount Band	Telecom Services	Internet Access	Internal Connections	Basic Maintenance	Total	% of Total
20-29%	\$ 1,120	\$ 629			\$ 1,749	0.11%
30-39%	2,842	1,182			4,025	0.25%
40-49%	65,352	27,819			93,172	5.74%
50-59%	80,724	29,658	As of 12/31/2013, Internal Connections and Basic Maintenance had not been funded.		110,382	6.80%
60-69%	139,966	51,736		191,702	11.81%	
70-79%	282,917	127,035		409,952	25.26%	
80-89%	416,157	151,826		567,982	34.99%	
90%	163,323	80,760		244,082	15.04%	
TOTAL	\$ 1,152,401	\$ 470,644	\$ 0	\$ 0	\$ 1,623,046	100.00%

*Funding Year data as of 12/31/2013. Funding Year 2013: July 1, 2013 - June 30, 2014.

Note — Numbers may not add due to rounding.

Schools and Libraries Program

Commitments by Applicant Type, Funding Year 2013* | (Unaudited)

Applicant Type	Applications Funded	Commitments (in thousands)	% of Applications	% of Total
Consortium	725	\$ 200,083	2.23%	12.33%
Library	4,717	79,936	14.54%	4.93%
School	8,044	104,346	24.79%	6.43%
School District	18,953	1,231,159	58.42%	75.85%
Statewide	6	7,522	0.02%	0.46%
TOTAL	32,445	\$ 1,623,046	100.00%	100.00%

*Funding Year data as of 12/31/2013. Funding Year 2013: July 1, 2013 - June 30, 2014.

Note — Numbers may not add due to rounding.

Schools and Libraries Program

Commitments by Rural v. Urban, Funding Year 2013* | (Unaudited)

	Applications Funded	Commitments (in thousands)	% of Applications	% of Total
Urban	8,638	\$ 184,114	26.62%	11.34%
Rural	4,661	46,347	14.37%	2.86%
N/A	19,146	1,392,585	59.01%	85.80%
TOTAL	32,445	\$ 1,623,046	100.00%	100.00%

*Funding Year data as of 12/31/2013. Funding Year 2013: July 1, 2013 - June 30, 2014.

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).

Numbers may not add due to rounding.

Universal Service Funding

Approved Disbursements by Program, Calendar Year 2013 | (Unaudited - in thousands)

State	High Cost	Lifeline	Rural Health Care*	Schools and Libraries	Total 2013	Total 1998-2013
Alabama	\$ 189,882	\$ 26,960	\$ 1,426	\$ 36,812	\$ 255,080	\$ 2,260,272
Alaska	181,147	18,450	36,838	42,235	278,670	2,974,612
American Samoa	3,204	85	21	1,404	4,714	63,959
Arizona	80,954	43,274	3,784	58,642	186,654	1,991,814
Arkansas	86,349	20,079	3,857	27,814	138,099	2,122,593
California	86,780	141,420	6,998	342,723	577,921	9,222,358
Colorado	75,757	5,630	4,840	24,664	110,891	1,454,802
Connecticut	464	12,517	8	17,079	30,068	432,509
Delaware	228	3,658	0	1,810	5,696	43,826
District of Columbia	0	5,535	0	8,719	14,254	151,734
Florida	65,341	101,373	282	89,269	256,265	2,709,988
Georgia	130,877	78,646	4,314	81,153	294,990	3,164,659
Guam	12,916	253	118	686	13,973	191,039
Hawaii	24,614	552	706	4,319	30,191	523,956
Idaho	46,061	2,411	495	9,342	58,309	891,301
Illinois	68,986	75,516	6,363	90,616	241,481	2,468,069
Indiana	80,872	27,566	5,299	35,970	149,707	1,389,700
Iowa	134,220	8,123	1,260	15,069	158,672	1,660,714
Kansas	158,653	11,067	642	21,772	192,134	2,639,165
Kentucky	130,883	27,812	1,573	38,900	199,168	1,804,415
Louisiana	94,624	42,433	489	48,299	185,845	2,674,179
Maine	25,352	7,185	5,851	8,657	47,045	696,239
Maryland	3,401	37,612	87	23,448	64,548	480,456
Massachusetts	2,074	32,561	110	23,694	58,439	744,354
Michigan	34,028	81,166	11,362	47,153	173,709	1,904,549
Minnesota	102,213	10,338	3,652	29,938	146,141	1,900,736
Mississippi	208,310	19,135	1,717	31,887	261,049	3,698,196
Missouri	106,537	24,765	1,719	35,437	168,458	2,049,653
Montana	87,762	2,092	948	5,119	95,921	1,241,825
Nebraska	72,934	1,495	3,642	10,640	88,711	1,203,961
Nevada	30,159	17,542	113	5,960	53,774	528,308
New Hampshire	9,043	2,392	2,210	2,476	16,121	194,709
New Jersey	702	33,169	0	56,426	90,297	919,195
New Mexico	77,386	14,752	3,945	30,990	127,073	1,530,702
New York	42,762	132,506	3,981	102,920	282,169	4,601,915
North Carolina	105,249	49,525	3,521	77,255	235,550	2,183,647
North Dakota	95,751	1,332	955	4,006	102,044	1,141,253
Northern Mariana Islands	1,787	200	9	478	2,474	51,057
Ohio	43,663	89,830	1,343	70,641	205,477	2,094,654
Oklahoma	131,927	199,185	2,930	61,016	395,058	3,356,320
Oregon	74,590	8,833	4,526	16,941	104,890	1,353,994
Pennsylvania	91,658	70,539	1,096	64,782	228,075	2,152,673
Puerto Rico	160,005	34,960	0	23,095	218,060	2,762,028
Rhode Island	30	7,222	0	6,678	13,930	162,398
South Carolina	101,968	39,615	1,127	40,598	183,308	1,949,300
South Dakota	73,281	928	1,002	4,574	79,785	1,092,870
Tennessee	71,542	39,784	532	45,167	157,025	1,733,897
Texas	248,154	95,010	4,907	240,658	588,729	7,261,108
Utah	21,952	4,537	2,842	19,187	48,518	547,178
Vermont	19,293	1,808	3,183	2,694	26,978	455,975
Virgin Islands	16,564	210	0	6,967	23,741	420,411
Virginia	81,898	23,850	1,980	35,445	143,173	1,598,869
Washington	77,021	25,768	301	29,101	132,191	1,843,752
West Virginia	111,269	9,325	2,164	20,293	143,051	1,207,033
Wisconsin	135,076	25,011	7,249	18,524	185,860	2,308,691
Wyoming	47,083	166	651	52,017	99,917	783,499
TOTAL	\$ 4,165,237	\$ 1,797,709	\$ 158,968	\$ 2,204,256	\$ 8,326,170	\$ 98,991,122

* Includes RHC Pilot Program disbursements

Note — Numbers may not add due to rounding.

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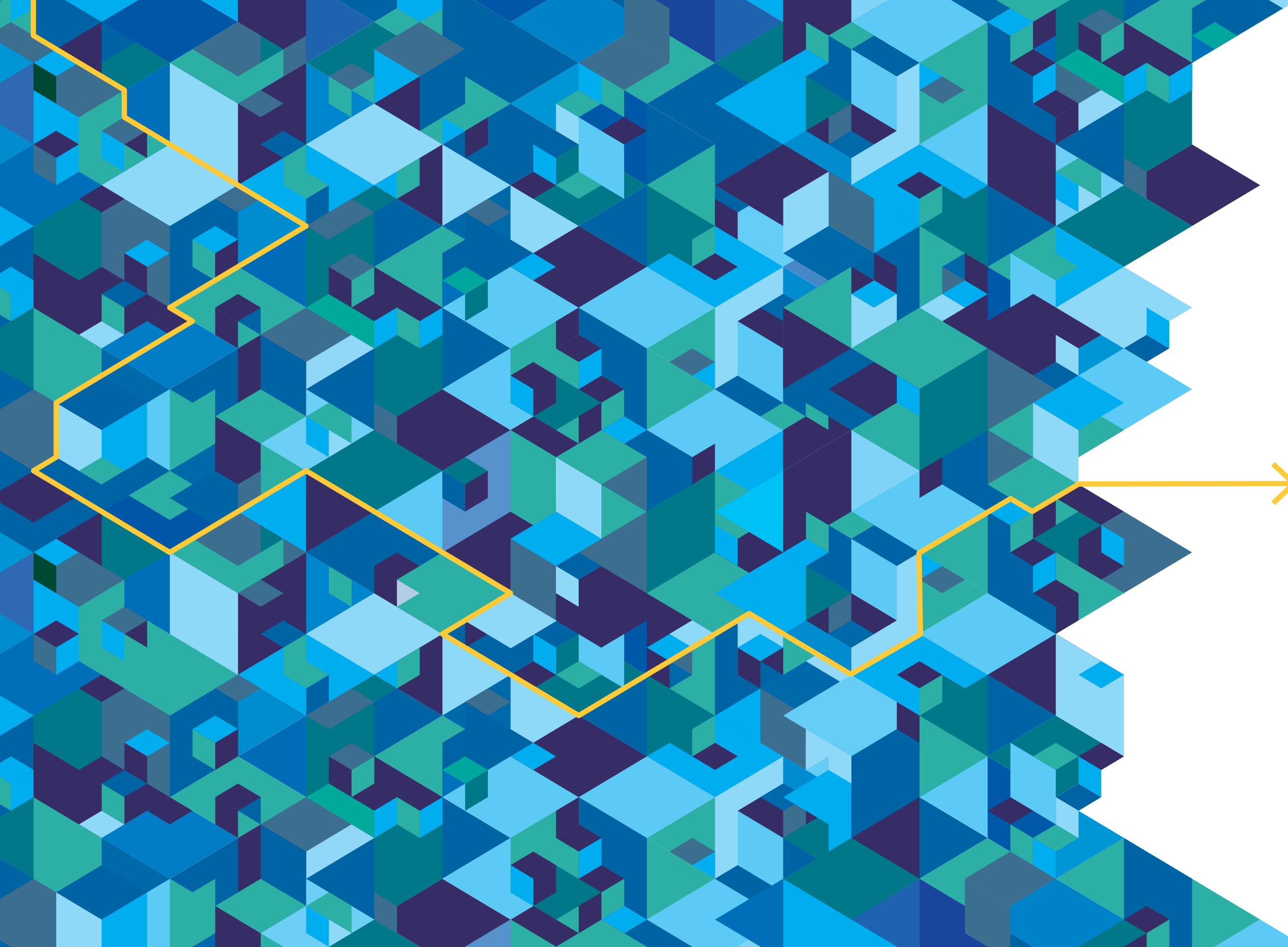
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