



**USAC**

Universal Service Administrative Company  
2000 Annual Report

# Reaching and Connecti

## USAC's Mission

### High Cost Support Mechanism

Provides support to telephone companies that serve high cost areas.

### Low Income Support Mechanism

Assists low-income customers by helping to pay for service connection charges as well as monthly charges.



# g Americans



## Schools and Libraries Support Mechanism (E-rate)

Provides discounted Internet access and telecommunications service to schools and libraries.

## Rural Health Care Support Mechanism

Allows rural health care providers to pay rates for telecommunications services that are similar to those of their urban counterparts.

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# The Universal Service Administrative Company

*Bringing Worlds Together Through Communications Technology*

The year 2000 has been challenging and successful for the Universal Service Administrative Company (USAC). We continue to provide support to connect everyone in the United States and its territories to the modern tools of telecommunications at reasonable rates. USAC distributed a record-breaking \$4.4 billion to companies participating in the various Universal Service Support Mechanisms serving high cost areas of the country, low-income consumers, rural health care providers, libraries, and schools.

The FCC entrusted USAC to implement several new or improved mechanisms in 2000. USAC has successfully implemented those mechanisms, consistent with FCC rules, in an efficient and effective manner.

- January 1 - USAC implemented a new support mechanism for companies serving high cost non-rural areas, which targets support to the highest cost wire centers. This new mechanism has provided \$223 million of additional support to high cost areas.

- July 1 - USAC implemented the new mechanism for Interstate Access support for price cap companies. This new mechanism provides for \$650 million of explicit universal service support each year.

- July 1 - USAC implemented the improved and streamlined Rural Health Care Support Mechanism. We anticipate that these improvements will allow more rural health care providers to receive support, increasing demand by more than \$5 million.

- October 1 - USAC implemented the Tribal Lands Initiative. This program is designed to provide telephone service to most low-income customers living on reservations for no more than a dollar a month. This new initiative will provide more than \$35 million to connect these consumers each year.

We have continued to operate efficiently — 99 cents of every dollar collected in 2000 was used to connect Americans to the telecommunications network. USAC has increased its efforts to ensure program integrity in several ways: (1) by establishing and maintaining a close working relationship with the staff of the FCC Enforcement Bureau and the Office of Inspector General; (2) by using statistical testing; (3) by conducting audits of USAC, including beneficiary audits of all the programs; (4) by implementing improvements recommended by independent auditors and the United States General Accounting Office; and (5) by addressing complaints or comments from program participants and service providers. USAC will take additional steps in 2001 to ensure program integrity and prevent against waste, fraud, and abuse.

USAC continues its efforts to increase operational efficiencies. We combined the contracts for Rural Health Care and Schools and Libraries program operation to achieve efficiencies and conducted a competitive bidding process. As a result, the new contract will save approximately 25 percent of program costs over the next three years. We are in the process of competitively bidding the billing, collection, and disbursement work and will enter into a new contract in 2001. USAC has committed to subject all major contracts to competitive bid and will continue to do so in 2001.

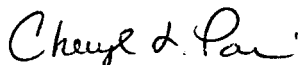
We recognize the importance and value of the service providers who work diligently to help ensure the success of all the support mechanisms. There are over 13,000 service providers who are a vital part of the process, and we will continue to work with them in an effort to make improvements and increase efficiency.

Our applicants are also a critical part of the program. We continually strive to provide assistance to them through various outreach efforts aimed at successfully guiding them through the process, in compliance with the rules. They provide valuable feedback and we are committed to listening and acting on their suggestions.

The future will provide additional opportunities and challenges. We have accomplished much, and have great plans for the future. For example, we plan to have a more coordinated approach to enforcement and compliance, including the expansion of our internal audit program, and we plan to implement the decision of the FCC for a new high cost mechanism for rural carriers.

We look forward to another successful year, and would again like to thank the FCC and Congress for providing USAC with the opportunity to help accomplish the universal service mission.

Sincerely,



Cheryl L. Parrino  
Chief Executive Officer



Frank J. Gumper  
Chairman of the Board

# USAC: An Overview

The Communications Act of 1934 stated that all people in the United States shall have access to “rapid, efficient, nationwide ... communications service with adequate facilities at reasonable charges.” In the Telecommunications Act of 1996, Congress further articulated this idea of “universal service” by setting forth six principles for “an evolving level of telecommunications service” for all Americans. Congress decreed that it is federal policy to provide support for services “essential to education, public health, or public safety,” and established that all people, regardless of location or income level, should have affordable access to telecommunications and information services.

## USAC Factsheet

- USAC has distributed over \$10 billion in support since its inception in 1997, and nearly \$4.4 billion in the year 2000 alone.
- USAC’s support mechanisms have benefited millions of Americans from all 50 states, the District of Columbia and U.S. territories.
- In the year 2000, over 1900 service providers contributed to the universal service support mechanism.

The support mechanisms necessary to achieve this universal service objective are administered by the Universal Service Administrative Company (USAC), an independent not-for-profit organization formed in September 1997 under regulation of the Federal Communications Commission (FCC). USAC’s charge is to ensure that all people receive the benefits of universal service consistent with the Communications Act and FCC regulations. To accomplish this, the FCC directed that USAC would be the administrator of the Universal Service Fund (USF). Over 1900 telecommunications companies contribute to the USF based on their interstate and international end-user revenue, in accordance with FCC regulations.

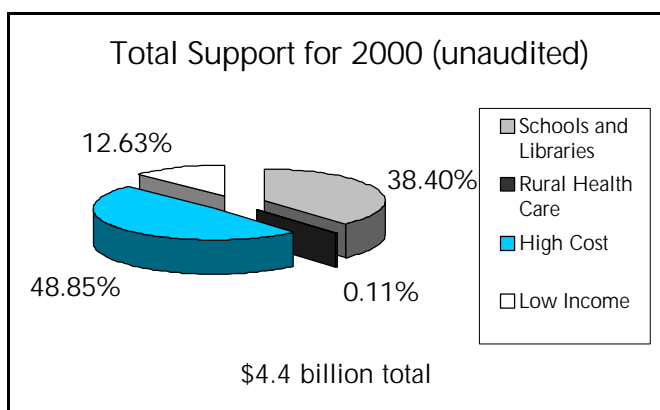
USAC provides universal service support through four mechanisms: High Cost, Low Income, Rural Health Care, and Schools and Libraries. The High Cost Support Mechanism provides support to telephone companies that serve high cost areas, thereby making phone service affordable for the residents of these regions. The

Low Income Support Mechanism assists low-income customers by helping to pay for monthly telephone charges as well as connection charges to initiate service. The Rural Health Care Support Mechanism allows rural health care providers to pay rates for telecommunications services similar to those of their urban counterparts, making telehealth services affordable. The Schools and Libraries Support Mechanism, popularly known as the “E-rate,” provides discounted Internet access, internal connecting, and telecommunications services to schools and libraries.

These universal service support mechanisms reach nearly all communities in the United States. In the three years since its creation, USAC has distributed over \$10 billion in support, and nearly \$4.4 billion in

the year 2000 alone. Millions of people have benefited from the programs USAC administers.

In the following pages, USAC provides highlights of changes and improvements as well as its success in furnishing universal service support in 2000. USAC submits this annual report to Congress and the FCC in accordance with 47 CFR § 54.702 (h), which requires USAC to report on “operations, activities, and accomplishments for the prior year, including information about participation in each of the universal service support mechanisms and administrative action intended to prevent waste, fraud, and abuse.” This annual report covers the period from January 1, 2000 through December 31, 2000. As required by law, USAC has consulted with the FCC concerning the scope and content of this annual report.



## Support Calculation and Billing

USAC is responsible for billing and collecting contributions to the universal service support mechanisms, and for disbursing universal service support funds to all eligible entities in accordance with FCC rules. In 2000, USAC billed and collected approximately \$4.5 billion from more than 1900 service providers, and USAC has distributed approximately \$4.4 billion in 2000 to program participants. In 1999, USAC billed and collected approximately \$3.9 billion, and distributed almost \$3.6 billion. Funds collected in excess of disbursements are being held to meet future obligations, thus reducing future collections.

FCC regulations provide that contributions to the universal service support mechanisms shall be based on contributors' end-user telecommunications revenues and a contribution factor determined quarterly by the Commission based on information submitted by USAC. USAC collects revenue data twice each year from more than 5000 service providers to meet this requirement, once in September for the first six months of the year and in April for the entire previous year. As required by FCC regulations, USAC collects, verifies, and summarizes the interstate and international industry revenue reported and includes the information in its quarterly filings with the FCC.

The Commission bases the quarterly universal service contribution factor on the ratio of total projected budgets (including demand and administrative costs) for the universal service support mechanisms to total interstate and international end-user telecommunications revenues. USAC files its projected quarterly budgets 60 days before the first day of a quarter, in total and specifically for each support mechanism. Current projections exceed \$1.3 billion per quarter. Current end-user telecommunications revenues exceed \$20 billion per quarter.

Much like a regular tariff filing, the Commission then reviews USAC's report and can approve, modify, or reject USAC's projected funding demand. The FCC establishes a contribution factor which USAC uses to calculate individual carriers' invoices, which are derived from applying the factor to total end-user interstate and international telecommunications revenues.

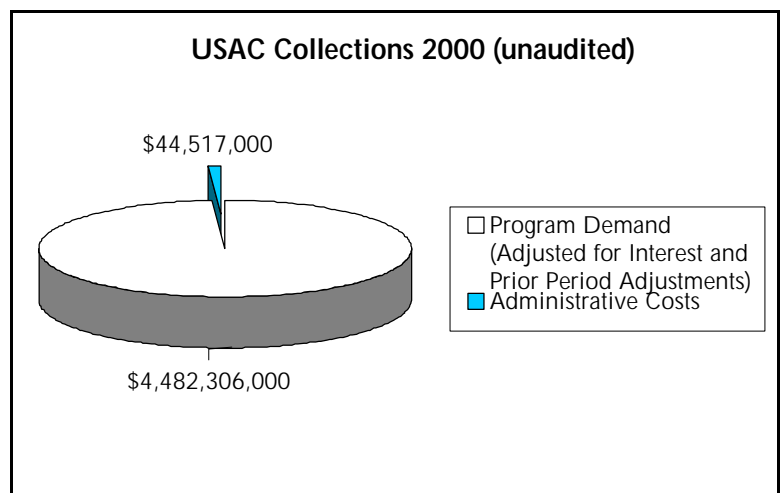
## Collections

USAC works hard to ensure that all carriers remain current in their contribution payments. USAC monitors carriers to ensure compliance with filing and contribution requirements. USAC works closely with the FCC to address carriers that are delinquent in their revenue reporting or contribution requirements. Among other activities, USAC provides the documentation required to support the FCC in its enforcement and compliance efforts.

Delinquent accounts receivable represent 0.44 percent of the almost \$12 billion billed to carriers since 1998. USAC has a \$51.9 million accounts receivable outstanding balance as of December 31, 2000. \$3.7 million of these accounts receivables are associated with companies that have filed for bankruptcy court protection.

USAC continues to experience a significant number of bankruptcy filings from telecommunications companies that are required to contribute to the USF, and actively pursues outstanding post-bankrupt USF balances. USAC monitors bankruptcy activity and participates in bankruptcy proceedings to the extent appropriate to protect the interest of the USF in such proceedings. Collection activities include notices and demands for payment, follow-up telephone contacts, and pursuit through the bankruptcy courts relating to post-petition amounts.

USAC constantly looks to reduce administrative expenses in all of the support programs. For the year 2000, 99 cents of every dollar collected was used to provide support for applicants to connect to the telecommunications network. Competitive bidding on all major contracts, conducting regular audits, and strict management controls of expenditures have resulted in an administrative expense to programs ratio that is extremely favorable. The FCC has



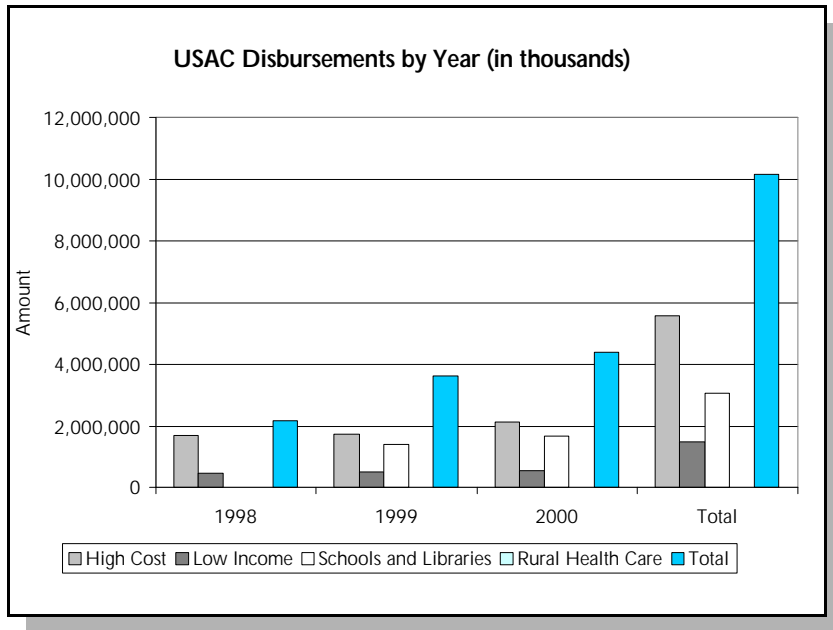
approved USAC's administrative expenses as submitted for each quarter of 2000: \$11,877,000 for the first, \$9,835,000 for the second, \$9,931,000 for the third, and \$12,874,000 for the fourth. USAC will report audited actual expenditures to the Commission and will make adjustments as directed.

**Disbursements**

USAC disburses funds to eligible service providers on a monthly basis for the High Cost and Low Income Support Mechanisms and as appropriate invoices are submitted by service providers and approved for the Rural Health Care and Schools and Libraries Support Mechanisms. USAC disburses on average over \$400 million monthly to almost 5000 service providers. Appendix B provides funding information for various types of service providers.

**Program Integrity**

USAC and the Universal Service Fund are closely scrutinized by independent auditors. Recent audits have confirmed that administrative controls are adequate to ensure that transactions are executed consistent with the purposes authorized and are recorded in accordance with appropriate accounting standards; assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud; and performance measurement information is adequately supported. The 1999 audited financial statements are included in Appendix A. The audit for 2000 is in process and will be included in next year's annual report.



USAC performs audits of the carriers submitting revenue information to ensure that carriers are accurately reporting revenues as required by FCC rule. This provides assurance that the revenue information that USAC submits to the FCC on a quarterly basis can be relied on for calculating the contribution factor. It also ensures that each carrier is billed for and contributes its appropriate share to the Universal Service Fund.



# The High Cost Support Mechanism

## *Connecting All Americans at Affordable Rates*

The High Cost Support Mechanism provides support to eligible telecommunications service providers to help ensure that the rates for telecommunications services paid by Americans living in rural or remote areas are comparable to the prices charged to those living in more densely populated areas. As the administrator of the High Cost Support Mechanism, USAC must determine the amount of support that can be made available to eligible service providers, all in accordance with FCC regulations. In 1998 and again in 1999, USAC distributed \$1.7 billion annually to companies that serve high cost areas. In 2000, USAC distributed more than \$2.2 billion. Appendix B provides funding information by state.

There are five components to the High Cost Support Mechanism:

- High Cost Loop support for rural carriers provides support for the cost of the "last mile" of connection for rural companies in service areas where the cost to provide this service exceeds 115 percent of the national average.
- Local Switching support provides interstate assistance which helps cover the high fixed switching costs for companies that serve fewer than 50,000 customers.
- Long Term support helps offset interstate access charges for rate of return-regulated companies.



"The federal High Cost program is extremely important to the customers that we serve. We serve a very large land mass in the Badlands and on the prairie of South Dakota. All of our customers live in either very small communities, on the reservations or in rural and remote areas. These areas are very expensive to provide a good, high quality of service. Without the High Cost support mechanisms, Golden West would not be able to serve its customers with the high level of service that our customers expect and deserve at an affordable and reasonable rate."

— Tim Dupic  
Vice President, Regulatory Affairs, Golden West  
Telecommunications Co-op, Inc.,  
Wall, SD

- High Cost support for non-rural carriers covers the cost for the "last mile" of connection in service areas where the cost to provide this service in the state exceeds 135 percent of the national average.

- Interstate Access support helps offset interstate access charges for price cap companies.

Each of these components plays an integral role in advancing the objectives of Congress and the FCC to keep the cost of telecommunications services reasonable for subscribers living in high cost, rural, or remote areas of the United States, while at the same time maintaining the high quality of service required by law. The result is that recipients of telecommunications services near communities such as Dell City, TX, or King Salmon, AK pay rates comparable to their more urban neighbors.

Service providers must be designated as eligible telecommunications carriers, or ETCs, in order to receive high cost support from USAC. ETCs of a variety of types and sizes, including incumbent local exchange carriers, competitive local exchange carriers, wireless carriers,

telephone cooperatives, and independent telephone companies, participate in the High Cost Support Mechanism.

In order to prevent waste, fraud, and abuse, the High Cost Support Mechanism has been subjected to audits of its operations, procedures, and financial operations by independent accounting firms. In addition, the cost information submitted by companies seeking high cost support is audited to ensure accuracy.

USAC contracted with the National Exchange Carrier Association, Inc. (NECA) for support services necessary to administer the High Cost Support Mechanism during the period covered by this report. The contractor performed the tasks associated with the contract in a fully satisfactory manner.

# The Low Income Support Mechanism

## Assisting Low-Income Customers

The Low Income Support Mechanism assists eligible low income consumers in establishing and maintaining telephone service by discounting services provided by local telephone companies. In 1998, the Low Income Support Mechanism was expanded to make available a baseline amount of support to companies in all states. Since that time, more than 1,500 telephone companies in all 50 states, the United States territories, and the District of Columbia have provided assistance to more than 5 million customers. Support to low-income consumers totaled nearly \$381 million in 1998, almost \$488 million in 1999, and more than \$553 million in 2000. Appendix B provides funding information by state.

More than 1,500 telephone companies in all states and territories have provided assistance to more than 5 million customers through the Low Income Support Mechanism.



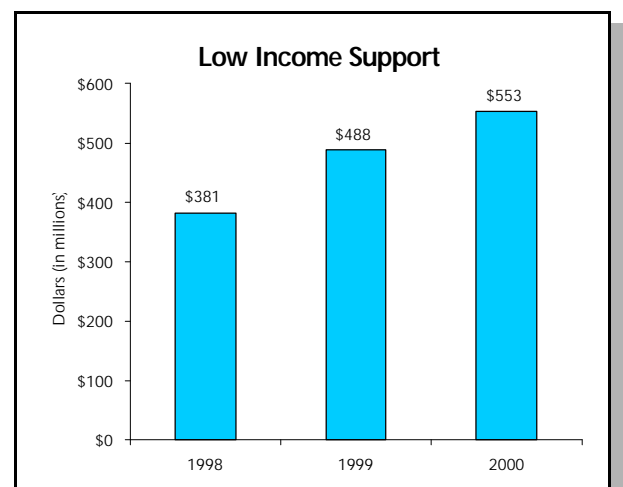
There are four components to the Low Income Support Mechanism:

- Lifeline support reimburses local service providers for providing discounted telephone service to eligible subscribers. Lifeline support enables low-income customers to save at least \$5.25 per month and up to \$7.85 per month on their telephone bills. Consumers may also qualify for an additional \$3.50 per month in matching support from their state.
- Link Up support reimburses local service providers for providing discounted connection charges to eligible low-income consumers. Customers qualifying for Link-Up support are eligible to save up to 50% on installation fees (not to exceed \$30).
- Toll Limitation Service support compensates local service providers for costs incurred in establishing the toll limitation service for low-income subscribers. Service providers are required to offer toll limitation service at no cost to low income consumers.

- PICC support reimburses interstate Presubscribed Interexchange Carrier Charges to local service providers in instances in which the low-income subscriber has selected toll limitation service. PICC support ended in July 2000, coincident with an increase to the Lifeline support for price cap carriers.

Beginning in 2000, the Low Income Support Mechanism was expanded to provide additional support to low income customers living on Native American reservations, consistent with the FCC's Tribal Lands Order. The Low Income Support Mechanism was enhanced in the following ways:

- An increase in the discount off the local phone bill, up to \$25, that eligible low-income consumers on reservations can receive under the federal Lifeline program. Under the new rules, low income subscribers may save between \$30.25 and \$32.85 per subscriber per month in Lifeline support, depending on various factors such as state matching.
- An increase in the assistance available for the cost of initiating service provided under the Link Up program by \$70 (to a total of \$100) per qualifying low income subscriber living on a reservation. This will reduce the initial connection charges and line extension costs associated with initiating phone service to eligible low income customers on reservations.



- Broader consumer qualification criteria for Lifeline and Link Up to include means-tested or income-based programs in which low-income tribal members are more likely to participate.

Eligible telecommunications carriers are required to publicize the availability of Lifeline and Link Up support in a manner designed to reach those likely to qualify for low-income discounts. By identifying and reaching out to potential recipients, service providers are able to extend valuable services to members of the community who would not otherwise have access to basic telephone services. This advances the federal policy of equal access to telecommunications services for all Americans.

The ongoing task of locating and identifying participants for the Low Income Support Mechanism remains a high priority for USAC. Data characterizing various demographic regions of America is available from a variety of sources and, upon inspection, it does not take long to recognize which areas of the country, whether they be urban or rural, should be targeted for outreach. USAC has worked closely with state public utility commissions and the National Association of Regulatory Utility Commissions on these efforts. USAC has also provided information at various seminars and conferences. Moreover, USAC's outreach team has spoken at conferences targeted at Native American communities in an effort to provide information on the recently enhanced programs for low income consumers living on reservations.

We will continue to work with state commissions and expand those outreach efforts in 2001.

In order to prevent waste, fraud, and abuse, USAC reviews all data submitted by carriers. Further, the Low Income Support Mechanism has been subjected to audits of its procedures and financial operations by independent accounting firms. In addition, a beneficiary audit, or an audit of carriers participating in the program, is conducted every year. To date, minor calculation errors have been discovered by these reviews, which have all been corrected, resulting in a small increase in support.

USAC contracted with NECA for support services necessary to administer the Low Income Support Mechanism during the period covered by this report. The contractor performed the tasks associated with this contract in a fully satisfactory manner.

" 3 Rivers Telephone has completed over 300 orders for customers using the enhanced Lifeline program. Many of them are amazed they are now able to afford local service and have the 911 protection available. This is an important factor on the reservation. For example, there is also a large number of elderly customers that need telephone service for medical reasons. They are usually on a fixed income and unable to afford any extras. The local service provided through this program keeps them in touch with family members, doctors, and additional services from which they benefit. All in all, this program has been able to provide telephone service to many individuals who would not otherwise have access."

—Janelle Rea, Fairfield, MT  
3 Rivers Telephone Cooperative



# The Rural Health Care Support Mechanism

## *Bringing Affordable Telehealth Services to Rural America*

The Rural Health Care Support Mechanism was created by Congress and implemented by the FCC to ensure that health care providers serving rural communities pay no more than their urban counterparts for telecommunications services necessary for the provision of health care.

USAC administers the Rural Health Care Support Mechanism, which supports monthly telecommunications charges, installation charges, and long-distance Internet connection charges. The program began in 1998. Participating rural health care providers must be either public or not-for-profit entities in order to obtain support from the program. Eligible entities include the following:

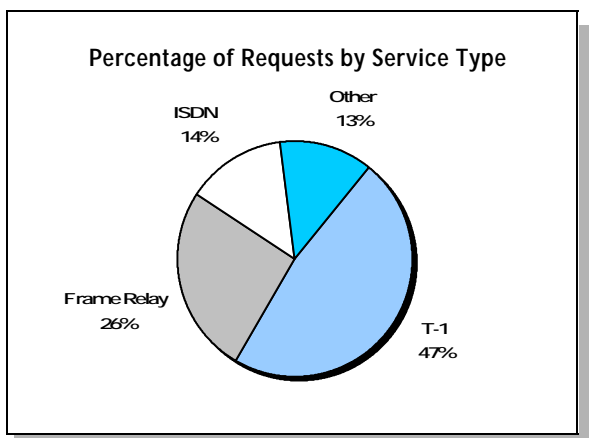
- Post-secondary educational institutions offering health care instruction, teaching hospitals, and medical schools
- Community health centers or health centers providing care to migrants
- Local health departments or agencies
- Community mental health centers
- Not-for-profit hospitals
- Rural health clinics
- Consortia of health care providers consisting of one or more entities described above

The burgeoning communications and information technologies now available to health care providers are streamlining the process of information sharing among health care practitioners. By helping to make telecommunications available to even the smallest and most remote health care providers, universal service support helps to make health care affordable, regardless of where the health care is administered.

The Rural Health Care Support Mechanism has doubled the funding committed — nearly \$6.8 million — to eligible health care providers during the second funding cycle (7/1/99 - 6/30/00) from \$3.4 million in the first funding cycle (1/1/98 - 6/30/99). Appendix B provides funding information by state. The third program year, which began on July 1, 2000, is expected to show another substantial increase in support for rural health care providers due to changes in FCC rules, a simplified application process, and USAC outreach efforts.



Photo courtesy of *Progressive Farmer*, July 2000. Reprinted with permission.



Eligible health care providers from Alaska to the Virgin Islands have applied for and received support for a variety of telecommunications services necessary for the provision of health care. The most frequently selected telecommunications service supported is the T-1 line, followed by Frame Relay and ISDN.

Rural health care providers are using the supported telecommunications services for a variety of patient services such as transmitting x-rays from remote areas to be read by health care professionals and experts in urban areas. Other uses include patient examination by doctors located many miles from patients. Cameras can be attached to portable units that feed live video to other locations. On monitors,

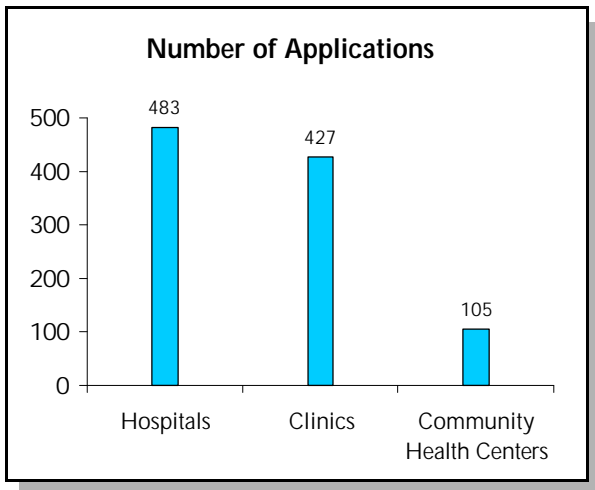
doctors or nurses can see and team-up to diagnose the ailment and prescribe treatment. Both the doctor and patient save time and money.

“Telemedicine gives the health-care provider a good, real-time exam,” says Dr. Rick Lampe, a medical director at Texas Tech University. “You’re talking to the patient. You’re looking at ears, throat and skin. You’re listening to lungs in a way that’s very comparable to a face-to-face physical exam.”<sup>1</sup>

Starting on July 1, 2000, health care providers could select any number of telecommunications services, with no bandwidth limitation. USAC expects to see an increase in future support as a result of this significant change in program rules.

USAC has received and processed applications from all eligible entity types. The majority of applications received in the first two years of the program have come from hospitals (483), followed by rural health clinics (427) and community health centers (105).

As a result of input from USAC, the health care community, and other interested parties, the Rural Health Care Support Mechanism has undergone a complete revision for Year 3, which began on July 1, 2000. Changes that were made to the program by the FCC and implemented by the USAC make it easier for health care providers to apply and receive support. The revision to allow all telecommunications providers to participate, for example, resulted in more than \$4.1 million of additional support for health care providers. As a result of the streamlining of the program, health care providers from all over the country and territories have applied for and received support.



Two vendors, PricewaterhouseCoopers and NECA, processed funding requests from the Rural Health Care Support Mechanism during 2000. Both vendors performed in a fully satisfactory manner.

In order to avoid waste, fraud, and abuse, USAC has a vigorous program integrity assurance process for handling applications. Further, independent accounting firms have conducted audits of the operations, procedures and financial operations. USAC also conducts audits of beneficiaries in order to ensure applicant compliance with program rules. In the beneficiary audit of Year 1 of the program, completed in 2000, all audited beneficiaries were fully in compliance with program rules.

Outreach for the Rural Health Care Support Mechanism has included an ongoing campaign of teleconferences and in-person seminars targeted at spreading the message to the more rural and isolated regions of America. The development of vital communications tools such as brochures, media kits, and our web site have made this endeavor cost effective and successful.

Service providers have been, and continue to be, active participants in reaching potential beneficiaries. Over 160 telecommunications companies participated in the program in 2000 by providing services at supported rates and helping health care providers with the applications process.

**“W**e’ve been operating teleradiology for seven years. There are no radiologists in our area. We used to have a courier service drive films 50 miles to Shawnee. Radiologists would fax back their reports in five to seven days. With telemedicine, we can have the report in just a few minutes.”<sup>1</sup>

— Casey Anson,  
Central Oklahoma Family Medical Center,  
Konawa, OK



<sup>1</sup>Source: *Progressive Farmer*, July 2000. Reprinted with permission.

# The Schools and Libraries Support Mechanism

## Connecting America's Classrooms and Libraries

The Schools and Libraries Support Mechanism — often called the “E-rate” — provides support for eligible schools and libraries to help offset the cost of advanced telecommunications services. USAC administers the Schools and Libraries Support Mechanism, which was launched in November 1997. Three rounds of funding commitments have been made through December 2000. Eligible schools and libraries receive discounts ranging from 20% to 90% on the following services:

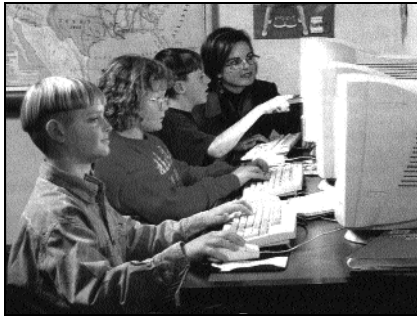


Photo courtesy of eSchool News, copyright June 2000. Reprinted with permission.

- Telecommunications services, including local and long-distance service
- Internet access
- “Internal connections” projects such as wiring and networking schools and libraries to facilitate the use of advanced telecommunications technology. Providing these connections affords students and library patrons the same access to high technology and near-instant information and resources that once could only be found at the university level.

The range of discounts available to schools and libraries correlates with the household income level of students in their communities and their urban or rural status. Income for a school or district is measured by the percentage of students eligible for the National School Lunch Program (NSLP) administered by the United States Department of Agriculture:

INCOME	URBAN	RURAL
If the percentage of students who qualify for the NSLP is...	...and the school or library is in an urban area, the E-rate discount will be...	...and the school or library is in a rural area, the E-rate discount will be...
Less than 1%	20%	25%
1% to 19%	40%	50%
20% to 34%	50%	60%
35% to 49%	60%	70%
50% to 74%	80%	80%
75% to 100%	90%	90%

Applicants must develop an approved “technology plan” which demonstrates the relationship between the information technology for which support is sought and the curriculum initiatives or library objectives that will lead to improved education and library services.

Year 3 of the support mechanism, which began on July 1, 2000, saw records broken in two major areas: applicant support requested reached \$4.7 billion and applicant support committed exceeded \$2.1 billion. For the first time ever, support was committed in all territories and the District of Columbia, in addition to the 50 states. Appendix B provides funding information by state.

“Gila County Library District serves a county with an area of 4700 square miles and a population of 50,000. The E-rate helps us with the cost of networking eight public libraries and two schools scattered throughout this area, in remote communities as well as small towns. One library is on the San Carlos Indian Reservation, and one is accessible by a two hour trip on an unpaved road. Our e-rate allows us to bring Internet service to populations that have no other local public access. Students, parents, winter visitors, temporary workers and the general public have all benefited from this connectivity.”

—Jacque Griffin,  
Librarian  
Gila County, AZ

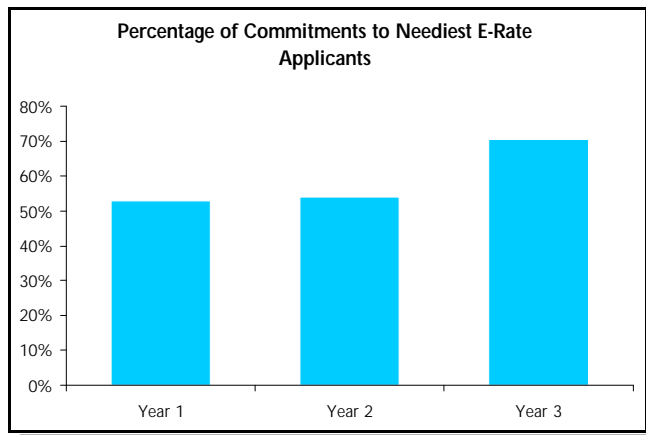
Of the more than \$2.1 billion committed in Year 3 for these requests, \$1.5 billion (70%) went to the neediest schools and libraries — those communities where 50% or more of their students qualified for free or reduced lunch programs. Commitments to the neediest schools and libraries is the highest in the three year history of the Schools and Libraries Support Mechanism.

On September 11, 2000, the U.S. Department of Education released a study, "E-rate and the Digital Divide."

The study reported, "The results of this analysis show that the E-rate is having the intended effect of supporting the development of Internet and telecommunications services, especially in poor areas ... Based on the results of this analysis, the programs' objectives are being met as application rates, and overall total funding, are higher for higher-poverty districts, schools and libraries."

The interest in the program among educators, librarians, committed parents, and technology-oriented learners has spurred growth in applications and funding requests. The level of funding sought in Year 3 doubled versus the prior year.

Better planning at the local level fostered technology plans yielding larger requests, particularly from large schools districts. The number of applications also



increased from 30,120 in Year 1 to 36,437 in Year 3.

USAC works in partnership with state technology coordinators to conduct outreach and educate applicants regarding the application process. This partnership has resulted in more accurate applications as well as an increase in the number of applications. USAC has worked to keep this network of public servants informed, and their dedication has helped expand interest and participation in the program.

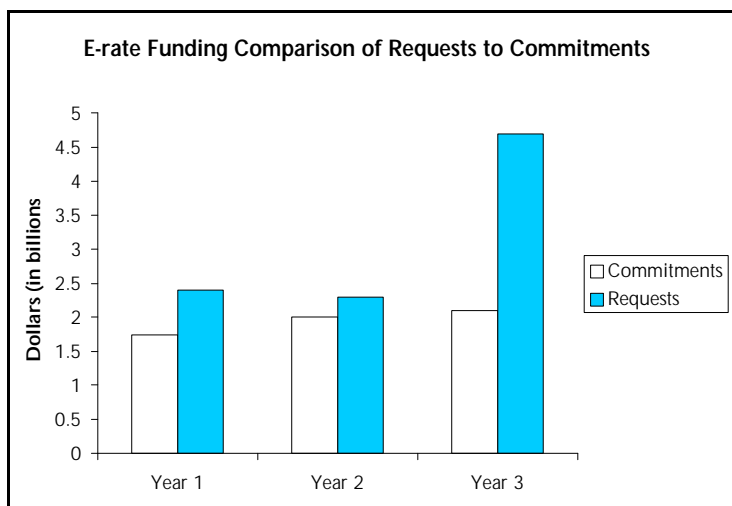
Service providers have been and continue to be valuable participants in the support mechanism. USAC broadened its channels of communications with service providers during 2000. The result has led to 13,465 service provider entities participating in the program over the three years. In October 2000, USAC conducted the first national service provider training workshop. This followed shortly after the applicant "Train-the-Trainers Workshop" held in Washington, DC, which reached over 40 states and several territories.

The reach of the program in Year 3 was stable among public and private schools, with 82 percent of public schools and 46 percent of private schools (including Catholic Diocesan) receiving funding. Library participation in Year 3 increased, with 61% of library branches receiving funding in Year 3 versus 51% in Year 2.

In order to be more user-friendly, USAC implemented several process improvements in 2000. First, the online process was improved by making it easier to navigate the web site when completing the FCC Form 471. A valuable online filing guide was crafted to further assist applicants. Second, for those applicants who were applying only for

"E-rate has allowed us to provide infrastructure and Internet access in our schools. Given our budget constraints it would have been impossible to achieve the level that we have in a timely manner. E-rate has been the key to providing state of the art education for the students of Portales Municipal Schools."

—Jim Holloway, Ed.D.  
Superintendent  
Portales Municipal Schools, Portales, NM



basic telephone and long distance service, USAC developed a simplified filing guide to speed them through the process. Finally, the information on the web site was made more accessible to users by simplifying the method to access the information, thereby reducing the time needed to find the information that applicants need.

The E-rate is having a significant impact on schools and libraries. The key findings concerning the E-rate, according to the Education and Library Networks Coalition (EdLINC) 2000 report entitled "Keeping the Promise to Connect Kids and Communities to the Future," were that:

- The E-rate program is increasing involvement in and opportunities for learning for all Americans.
- The E-rate program is fostering greater parental involvement in children's learning.
- The E-rate program is spurring demand for and deployment of the Internet.
- E-rate discounts are leveraging significant new investments in technology in schools and libraries.
- The E-rate program is fostering partnerships among diverse community institutions.

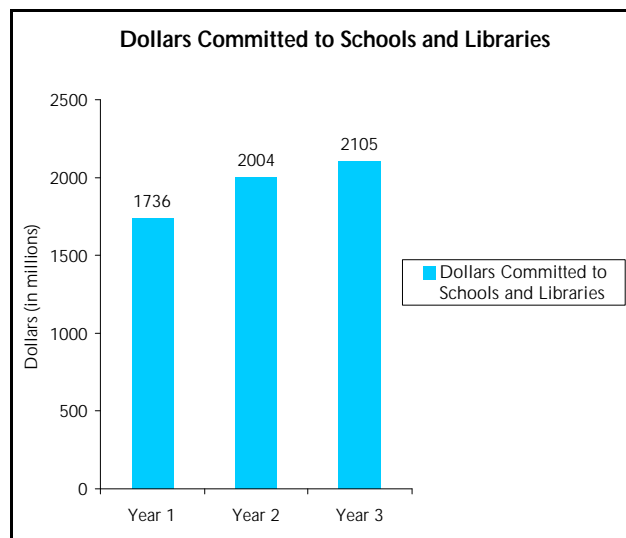
In order to avoid waste, fraud, and abuse, USAC has a vigorous program integrity assurance process for handling requests for funding and invoice review. USAC works closely with the FCC Office of Inspector General and Enforcement Bureau to prevent and investigate claims of program rule violations, and independent accounting firms conducted audits of the operations, procedures, and financial operations. In addition, USAC conducts audits of beneficiaries in order to ensure applicant compliance with program rules. In 2000, the General Accounting Office (GAO) reviewed the amount of committed funds that have been used, whether funds have been committed for ineligible services, the level of administrative expenditures, and the FCC's progress in establishing program goals. In its report issued in 2000, GAO offered valuable and constructive recommendations. Several of its recommendations have already been implemented and others are in progress.

**"** Located 650 air miles from Anchorage, Alaska, and accessible only by air and sea, the Nelson Lagoon School is a prime example of how access to technology, made available via E-Rate, has transformed a school, its 17 students, and the community. Forget about bringing the world to students. These students have brought Nelson Lagoon to the world!"

-- Chick Beckley  
Facilitator of Instructional Technology  
Aleutians East Borough School District, AK



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In its report issued in 2000, GAO offered valuable and constructive recommendations. Several of its recommendations have already been implemented and others are in progress.

In order to process applications, provide customer service, and develop and maintain the web site, USAC has, through a competitive bidding process, contracted with NECA to provide these services. NECA has performed the tasks associated with their contract in a fully satisfactory manner.

USAC improved its process for some providers by instituting a faster feedback system for invoice management, and by increasing the number of participants in the electronic invoicing program.



# 2000 USAC Board of Directors

**David Abramson**  
Intermedia.NET

**Dr. Anne L. Bryant**  
**Treasurer, USAC Board**  
Executive Director  
National School Boards Association

**John ("Tony") A. Butler**  
President  
Butler Enterprises

**Edwin H. Eichler**  
**Secretary, USAC Board**  
President  
Pigeon Telephone Company

**Heather B. Gold**  
**Chair, High Cost & Low Income Committee**  
Vice President, Industry Policy  
Intermedia Communications

**Frank J. Gumper**  
**Chair, USAC Board  
and Executive Committee**  
Vice President, Public Policy Development  
Verizon Communications

**Kevin Hess**  
Vice President, Federal Affairs  
TDS Telecom

**Martha Hogerty**  
Missouri Public Counsel  
Office of the Public Counsel

**James Jackson**  
Regulatory Attorney  
General Communication, Inc.

**Isiah C. Lineberry**  
Executive Director  
Office of Rural Health Services  
Georgia Department of Community Health

**Dr. Henry Marockie**  
**Vice Chair, USAC Board  
and Executive Committee**  
Chief State School Officer  
West Virginia

**Kathleen G. Ouye**  
**Chair, Schools & Libraries Committee,**  
City Librarian  
San Mateo Public Library



*First row, from left: Gold, Gumper, Thoms, Bryant, Talbott, Lineberry  
Second row: Abramson, Marockie, Eichler, Hess  
Third row: Sanders, Ouye, Parrino  
Not pictured: Butler, Hogerty, Jackson, Rosenblum, Wheeler*

**Cheryl L. Parrino**  
**Chief Executive Officer**  
Universal Service Administrative Company

**Lisa Rosenblum**  
Senior Vice President, Government Affairs and  
Education  
Cablevision Systems Corporation

**Dr. Jay H. Sanders**  
**Chair, Rural Health Care Committee**  
President and Chief Executive Officer  
The Global Telemedicine Group

**Dr. Brian L. Talbott**  
Executive Director  
American Association of Educational Service  
Agencies

**Allan Thoms**  
Chair  
Iowa Utilities Board

**Thomas Wheeler**  
President  
Cellular Telecommunications & Internet  
Association

# Appendix A: Financial Reports

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY  
FINANCIAL STATEMENTS AS OF DECEMBER 31, 1999 AND 1998  
FOR THE YEAR ENDED DECEMBER 31, 1999 AND THE  
PERIOD SEPTEMBER 17, 1997 (INCEPTION) THROUGH DECEMBER 31, 1998  
TOGETHER WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of  
Universal Service Administrative Company:

We have audited the accompanying statement of financial position of the Universal Service Administrative Company (a Delaware corporation) (the "Company") as of December 31, 1999 and 1998, and the related statements of revenue and expenses and cash flows for the year ended December 31, 1999 and for the period from September 17, 1997 (inception) through December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Universal Service Administrative Company as of December 31, 1999 and 1998 and the revenue and expenses and its cash flows for the year ended December 31, 1999 and for the period from September 17, 1997 (inception) through December 31, 1999 and 1998 in conformity with accounting principles generally accepted in the United States.

Roseland, New Jersey  
April 12, 2000

## Universal Service Administrative Company

STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 1999 AND 1998  
(in thousands)

ASSETS	<u>1999</u>	<u>1998</u>
CASH AND CASH EQUIVALENTS (Note 2)	\$ 11,893	\$ 5,665
INTEREST RECEIVABLE	25	-
OTHER DEPOSITS (Note 2)	1,579	-
RESTRICTED NET ASSETS APPLICABLE TO UNIVERSAL SERVICE FUND (USF) (Note 1)	<u>1,684,401</u>	<u>1,403,645</u>
Total assets	<u>\$1,697,898</u>	<u>\$1,409,310</u>
LIABILITIES AND FUND BALANCE		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES (Note 2)	\$ 677	\$ 5,665
PAYABLE TO USF	12,820	-
RESTRICTED FUND BALANCE APPLICABLE TO USF (Note 1)	<u>1,684,401</u>	<u>1,403,645</u>
Total liabilities and fund balance	<u>\$1,697,898</u>	<u>\$1,409,310</u>

The accompanying notes to financial statements are an integral part of this statement.

## Universal Service Administrative Company

STATEMENT OF REVENUE AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 1999 AND FOR THE PERIOD SEPTEMBER 17, 1997 (INCEPTION)  
THROUGH DECEMBER 31, 1998  
(in thousands)

	<u>1999</u>	<u>1998</u>
REVENUE:		
Contract revenue	\$3,938	\$4,496
EXPENSES:		
Personnel and related expenses	964	183
General and administrative	734	382
Depreciation and amortization	26	2
Contractual expenses (Notes 1 and 2)	<u>2,214</u>	<u>3,929</u>
Total expenses	<u>3,938</u>	<u>4,496</u>
Net income	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this statement.

## Universal Service Administrative Company

### STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 1999 AND FOR THE PERIOD SEPTEMBER 17, 1997 (INCEPTION)  
THROUGH DECEMBER 31, 1998

(in thousands)

	<u>1999</u>	<u>1998</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Contract revenue received	\$ 3,938	\$ 4,496
Other cash received	11,448	4,910
Cash paid for administrative costs	<u>(9,158)</u>	<u>(3,741)</u>
Net cash provided by operating activities	6,228	5,665
CASH AND CASH EQUIVALENTS, beginning of period	<u>5,665</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 11,893</u>	<u>\$ 5,665</u>
<b>RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Changes in operating assets and liabilities -		
Increase in restricted net assets applicable to USF	\$ (280,756)	\$(1,403,645)
Increase in interest receivable	(25)	-
Increase in other deposits	(1,579)	-
(Decrease) increase in accounts payable and accrued expenses	(4,988)	5,665
Increase in payable to USF	12,820	-
Increase in restricted fund balance applicable to USF	<u>280,756</u>	<u>1,403,645</u>
Net cash provided by operating activities	<u>\$ 6,228</u>	<u>\$ 5,665</u>

The accompanying notes to financial statements are an integral part of this statement.

## Universal Service Administrative Company

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998  
(in thousands)

### 1. ORGANIZATION AND BASIS OF PRESENTATION

The Universal Service Fund ("USF") operates pursuant to Section 254 of the Communications Act of 1934, as amended. The Universal Service Administrative Company ("USAC") was incorporated, effective September 17, 1997, as an independent wholly-owned subsidiary of the National Exchange Carrier Association ("NECA"), and appointed by the Federal Communications Commission ("FCC") to administer the USF. USAC's Board of Directors consists of independent directors representing a cross-section of stakeholders in the four Universal Service Support Mechanisms. NECA was directed by the FCC to establish two unaffiliated not-for-profit corporations, the Schools and Libraries Corporation ("SLC") and the Rural Health Care Corporation ("RHC"). SLC and RHC were incorporated effective September 17, 1997. After approval by the FCC, SLC and RHC were merged into USAC on January 1, 1999. With the merger, USAC formed the High Cost and Low Income Division ("HCLID"), the Schools and Libraries Division ("SLD"), and the Rural Health Care Division ("RHD") (collectively the "Divisions").

USAC performs billing, collection and disbursement functions for all the universal service support mechanisms: high cost, low income, rural health care, and schools and libraries. It also collects information regarding contributing entities' and end-user telecommunications revenues, submits to the FCC projections of demand and administrative expenses for the support mechanisms and submits quarterly universal service contribution data to the FCC.

The functions of USAC and the Divisions also include, but are not limited to: development of applications and associated instructions as needed for the support mechanisms, administering the application process to ensure compliance with FCC rules and regulations, creating and maintaining a web site and related operational infrastructure for such processes, performing outreach and public education functions, authorizing audits of telecommunication carriers, schools, libraries, and rural health care providers, and development and implementation of other functions unique to the support mechanisms. Each of the previously named divisions is responsible for the program operations associated with each of the like named programs (collectively the "Programs").

Funds collected from contributors by USAC are restricted as to their intended use related to the universal service support mechanisms discussed above. Accordingly, such funds, together with related assets and liabilities have been reflected as "restricted net assets applicable to USF" in the accompanying statement of financial position. Available funds are maintained and invested by USAC.

In 1998, in addition to payments to service providers and for administrative expenses, USAC provided funds to SLC and RHC to support the functions they were obligated to carry out as described above. Such funding is reflected as "Administrative Costs-SLC & RHC" in the information presented below for the USF Fund balance. As of December 31, 1998, SLC and RHC had unexpended cash balances of \$2 and \$600, respectively. Since the activities of SLC and RHC have been included in the information presented below for the Schools and Libraries and Rural Health Care programs, such cash balances together with related assets and liabilities are also included therein and payments to SLC and RHC have been reduced accordingly.

In 1999 and 1998, USAC administrative costs are primarily comprised of common costs for billing and collection for all the Programs along with common administrative costs incurred by USAC as the administrative agent of the USF totaling \$3,938 and \$4,496, respectively. Costs directly attributable and charged to the Programs have not been reflected in the USAC financial statements. However, those costs along with the USAC common costs have been included in the financial information presented below.

# Universal Service Administrative Company

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1999 AND 1998

(in thousands)

Financial information as of December 31, 1999 and 1998 and for the year ended December 31, 1999 and for the period from September 17, 1997 (inception) through December 31, 1998 for the USF is as follows-

SUMMARY STATEMENT OF NET ASSETS APPLICABLE TO USF	1999				
	High Cost	Low Income	Schools & Libraries	Rural Health Care	Total USF
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 444	\$ 73,266	\$ 880,878	\$ 5,708	\$ 960,296
Short-term investments	-	-	573,145	-	573,145
Receivable from contributors	169,622	44,464	202,319	1,010	417,415
Allowance for doubtful accounts	(10,115)	(2,889)	(6,996)	(129)	(20,129)
Receivable from USAC	1,396	216	11,059	149	12,820
Interest receivable	215	961	21,357	18	22,551
Prepaid and other assets	9	9	9	8	35
Fixed assets, net	919	105	1,322	196	2,542
Total assets	162,490	116,132	1,683,093	6,960	1,968,675
<b>LIABILITIES:</b>					
Payable to service providers	142,803	78,049	58,978	-	279,830
Payable to contributors	428	123	3,887	6	4,444
Accounts payable and accrued expenses	-	-	-	-	-
Interprogram payable (receivable)	7,377	(7,377)	-	-	-
Total liabilities	150,608	70,795	62,865	6	284,274
Restricted fund balance applicable to USF	\$ 11,882	\$ 45,337	\$1,620,228	\$ 6,954	\$1,684,401
<b>SUMMARY STATEMENT OF CHANGES IN FUND BALANCE</b>					
	1999				
	High Cost	Low Income	Schools and Libraries	Rural Health Care	Total USF
<b>ADDITIONS TO FUND BALANCE:</b>					
Amounts billed to contributors	\$1,752,269	\$501,991	\$1,610,195	\$ 2,035	\$3,866,490
Interest income	2,910	5,338	71,650	2,362	82,260
Other income	-	-	-	-	-
Total additions	1,755,179	507,329	1,681,845	4,397	3,948,750
<b>DEDUCTIONS FROM FUND BALANCE:</b>					
Amounts paid and due to providers	1,731,835	485,391	1,397,345	544	3,615,115
Refunds paid and due to contributors	370	117	306	7	800
Allowance for doubtful accounts	6,289	1,795	5,396	(28)	13,452
Program operating costs	3,267	1,531	30,313	3,516	38,627
Total deductions	1,741,761	488,834	1,433,360	4,039	3,667,994
Net change in fund balance	13,418	18,495	248,485	358	280,756
INTERPROGRAM TRANSFERS (Note 3)	-	-	90,200	(90,200)	-
BEGINNING FUND BALANCE	(1,536)	26,842	1,281,543	96,796	1,403,645
ENDING FUND BALANCE	\$ 11,882	\$ 45,337	\$1,620,228	\$ 6,954	\$1,684,401

## Universal Service Administrative Company

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998  
(in thousands)

SUMMARY STATEMENT OF CASH FLOWS	1999				Total USF
	High Cost	Low Income	Schools & Libraries	Rural Health Care	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from contributors	\$1,737,393	\$499,725	\$1,529,285	\$ 10,481	\$3,776,884
Cash paid to contributors	(1,453)	(117)	(306)	(7)	(1,883)
Cash paid to service providers	(1,730,412)	(487,936)	(1,338,081)	(545)	(3,556,974)
Cash paid for administrative expenses	(2,873)	(1,222)	(37,663)	(3,060)	(44,818)
Cash paid to USAC for working capital	(1,459)	(421)	(9,502)	(511)	(11,893)
Interest received	2,683	4,420	51,045	2,404	60,552
Interprogram loans	(2,472)	2,472	-	-	-
Interprogram transfers	-	-	90,200	(90,200)	-
Net cash provided by (used in) operating activities	1,407	16,921	284,978	(81,438)	221,868
<b>CASH FLOWS FROM INVESTING ACTIVITIES --</b>					
Purchase of short-term investments	-	-	(573,145)	-	(573,145)
Purchase of fixed assets	(963)	(73)	(1,363)	(108)	(2,507)
Net cash used in investing activities	(963)	(73)	(574,508)	(108)	(575,652)
<b>CASH FLOWS FROM FINANCING ACTIVITIES --</b>					
Increase (decrease) in cash and cash equivalents	444	16,848	(289,530)	(81,546)	(353,784)
CASH AND CASH EQUIVALENTS, beginning of period	-	56,418	1,170,408	87,254	1,314,080
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 444</u>	<u>\$ 73,266</u>	<u>\$ 880,878</u>	<u>\$ 5,708</u>	<u>\$ 960,296</u>



## Universal Service Administrative Company

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998  
(in thousands)

SUMMARY STATEMENT OF NET ASSETS APPLICABLE TO USF	1998				Total USF
	High Cost	Low Income	Schools & Libraries	Rural Health Care	
<b>ASSETS:</b>					
Cash and cash equivalents	\$ -	\$ 56,418	\$1,170,408	\$ 87,254	\$1,314,080
Receivable from contributors	155,302	42,671	117,726	9,448	325,147
Allowance for doubtful accounts	(3,826)	(1,094)	(1,600)	(157)	(6,677)
Interest receivable	-	43	766	61	870
Prepaid and other assets	447	86	117	92	742
Fixed assets, net	54	54	54	198	360
Total assets	151,977	98,178	1,287,471	96,896	1,634,522
<b>LIABILITIES:</b>					
Payable to service providers	142,407	80,667	-	-	223,074
Payable to contributors	1,257	518	117	10	1,902
Accounts payable and accrued expenses	-	-	5,811	90	5,901
Interprogram payable (receivable)	9,849	(9,849)	-	-	-
Total liabilities	153,513	71,336	5,928	100	230,877
Restricted fund balance applicable to USF	<u>\$ (1,536)</u>	<u>\$ 26,842</u>	<u>\$1,281,543</u>	<u>\$ 96,796</u>	<u>\$1,403,645</u>

SUMMARY STATEMENT OF CHANGES IN FUND BALANCE	1998				Total USF
	High Cost	Low Income	Schools & Libraries	Rural Health Care	
<b>ADDITIONS TO FUND BALANCE:</b>					
Amounts billed to contributors	\$1,701,594	\$ 487,833	\$1,284,200	\$ 100,731	\$3,574,358
Interest income	3,032	3,641	28,430	2,135	37,238
Other income	285	83	127	11	506
Total additions	1,704,911	491,557	1,312,757	102,877	3,612,102
<b>DEDUCTIONS FROM FUND BALANCE:</b>					
Amounts paid and due to providers	1,696,751	461,345	-	-	2,158,096
Refunds paid and due to contributors	2,451	937	1,342	104	4,834
Allowance for doubtful accounts	3,826	1,094	1,600	157	6,677
Administrative costs					
NECA	2,158	-	-	-	2,158
USAC	1,261	1,339	948	948	4,496
SLC & RHC	-	-	27,324	4,872	32,196
Total deductions	1,706,447	464,715	31,214	6,081	2,208,457
Net change in fund balance	(1,536)	26,842	1,281,543	96,796	1,403,645
BEGINNING FUND BALANCE	-	-	-	-	-
ENDING FUND BALANCE	<u>\$ (1,536)</u>	<u>\$ 26,842</u>	<u>\$1,281,543</u>	<u>\$ 96,796</u>	<u>\$1,403,645</u>

## Universal Service Administrative Company

### NOTES TO FINANCIAL STATEMENTS

December 31, 1999 and 1998

(in thousands)

SUMMARY STATEMENT OF CASH FLOWS	1998				
	High Cost	Low Income	Schools & Libraries	Rural Health Care	Total USF
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from contributors	\$1,546,234	\$445,237	\$1,166,590	\$ 91,295	\$3,249,356
Cash paid to contributors	(1,212)	(411)	(1,214)	(95)	(2,932)
Cash paid to service providers	(1,554,344)	(380,678)	-	-	(1,935,022)
Cash paid for administrative expenses	(3,419)	(1,339)	(22,461)	(5,696)	(32,915)
Interest received	3,032	3,598	27,664	2,074	36,368
Interprogram transfers	9,849	(9,849)	-	-	-
Net cash provided by operating activities	140	56,558	1,170,579	87,578	1,314,855
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of fixed assets	(140)	(140)	(171)	(324)	(775)
Net cash used in investing activities	(140)	(140)	(171)	(324)	(775)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Increase in cash and cash equivalents	-	56,418	1,170,408	87,254	1,314,080
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>					
	-	-	-	-	-
<b>CASH AND CASH EQUIVALENTS, end of period</b>					
	<u>\$ -</u>	<u>\$ 56,418</u>	<u>\$1,170,408</u>	<u>\$ 87,254</u>	<u>\$1,314,080</u>

In 1998, payments to SLC and RHC of \$27,324 and \$4,872, respectively, reflected above represent actual expenditures or commitments and consist of the following-

	SLC	RHC
Personnel and related expenses	\$ 1,784	\$ 464
General and administrative	2,199	773
Depreciation and amortization	-	33
Contractual expenses	23,341	3,602
	<u>\$ 27,324</u>	<u>\$ 4,872</u>

## Universal Service Administrative Company

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998  
(in thousands)

### 2. SIGNIFICANT ACCOUNTING POLICIES

These accounting policies relate to USAC and USF activities described above.

#### Use of Estimates

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

#### Cash and Cash Equivalents

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

#### Other Deposits

Other deposits presented on the USAC statement of financial position represents a working capital deposit paid by USAC to NECA on behalf of the USF.

#### Short-term Investments

USAC considers all securities purchased with an original maturity greater than three months but less than one year to be short-term investments.

#### Fixed Assets

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

The AICPA has adopted Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" effective for financial statements for fiscal years beginning after December 15, 1998. The statement requires that certain costs of materials and services consumed in developing or obtaining internal-use computer software be capitalized. Accordingly, management has commenced capitalization of these costs in 1999 resulting in additions to fixed assets of \$2,105. Had management elected early adoption, approximately \$987 of expenses would have been capitalized in 1998.

## Universal Service Administrative Company

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998  
(in thousands)

### Accounts Payable and Accrued Expenses

During the period ended December 31, 1998, USAC entered into a contract with NECA whereby NECA provided all administrative and cash management services to USAC. Accounts payable and accrued expenses represents administrative costs incurred by and due to NECA on behalf of USAC and intercompany cash transactions.

In 1999, accounts payable and accrued expenses represents costs incurred and recorded by USAC related to the administration of the USF.

### Payable to USF

Payable to USF presented on the USAC statement of financial position consists of operational cash held by USAC and the related interest receivable owed to the USF plus a working capital deposit paid by USAC to NECA on behalf of the USF net of accounts payable and accrued expenses incurred and recorded by USAC.

### 3. INTERPROGRAM TRANSFERS

In the First Quarter 1999 Contribution Factors Public Notice released on December 4, 1998, the FCC directed that excess contributions be credited back to the contributors. Because the contributions received through November 1999 exceeded the amounts required to meet demands for the rural health care program for 1998 and the first quarter of 1999, the FCC proposed that total contribution obligations for 1999 be reduced by the amount of the excess contributions previously received. Specifically, the FCC applied the excess contributions for the rural health care program to the schools and libraries program as these programs utilize the same contribution base. That is, the contribution base for both the schools and libraries program and the rural health care program consists of interstate, intrastate, and international end-user telecommunications revenues. Accordingly, during 1999, USAC re-allocated \$90,200 from the rural health care program to the schools and libraries program.

### 4. COMMITMENTS TO SCHOOLS, LIBRARIES AND RURAL HEALTH CARE FACILITIES

Beginning in November 1997, the management of SLC began developing operational procedures to administer the application process through which eligible schools and libraries apply for universal service funding. These operational procedures enable the SLD to review and process applications resulting in funding commitment letters that are issued to eligible schools and libraries. Funding commitments made to eligible schools and libraries are not fixed and are not binding for either the SLD or the schools and libraries applying for funding. At any point in time, funds committed could potentially exceed funds available due to the nature of the process, the volume and timing of application receipt and approval, the timing of collections and the extent to which several funding years may be open at that point in time.

Beginning in March 1998, the management of RHD began developing operational procedures to administer the application process through which eligible rural health care providers apply for universal service funding. These operational procedures enable the RHD to review and process applications resulting in funding commitment letters that are issued to eligible rural health care providers. Funding commitments made to eligible

## Universal Service Administrative Company

NOTES TO FINANCIAL STATEMENTS  
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(in thousands)

rural health care providers are not fixed and are not binding for either the RHD or the rural health care providers applying for funding. At any point in time, funds committed could potentially exceed funds available due to both the volume and timing of application receipt and approval, the timing of collections and the extent to which several funding years may be open at that point in time.

### 5. INCOME TAXES

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

### 6. COMMITMENTS

Obligations to make future minimum lease payments under noncancellable operating leases (without providing for escalation clauses, the effect of which is not expected to be significant) are: \$317 (2000); \$324 (2001); \$330 (2002) and \$337 (2003). Rental expense related to premises and equipment, including payments under month-to-month leases, amounted to \$308 and \$15 during 1999 and 1998, respectively.

### 7. RETIREMENT PLANS

USAC has a 401(k) Retirement Savings Plan ("the Plan") covering all USAC regular employees. The Plan is both contributory and noncontributory and all contributions are subject to certain limitations as prescribed by the Plan Document and government regulations. Employees are immediately vested in the employer contribution, which is funded on a current basis. The Plan employer contribution charged to operations was \$175 and \$10 during 1999 and 1998, respectively.

# Appendix B: Detailed Tables

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# Disbursements by Service Provider Type As of 01/14/01

*All support mechanisms*

Service Provider Type	1998	1999	2000	Total Support
Competitive Access Provider	\$ 131,573	\$ 14,119,215	\$ 21,937,677	\$ 36,188,465
Cellular/Wireless Provider	-	5,807,527	9,228,996	15,036,523
Wireless Data	-	1,861,679	3,497,211	5,358,890
Internet Service Provider	-	75,496,452	92,785,441	168,281,893
Inter-Exchange Carrier	-	42,880,449	52,201,747	95,082,196
Local Exchange Carrier	2,072,161,960	2,673,325,231	3,201,526,753	7,947,013,944
Local Reseller	-	7,055,245	9,506,012	16,561,257
Non-Traditional Provider	-	690,457,310	922,283,662	1,612,740,972
Operator Service Provider	-	37,818	49,360	87,178
Other Local Telecom Company	-	24,842,196	40,414,949	65,257,144
Other Mobile Telecom Company	-	12,154	-	12,154
Other Toll Telecom Company	-	530,445	-	530,445
Paging Company	-	1,027,056	1,165,423	2,192,479
Payphone Provider	-	145,702	958,818	1,104,520
Pre-Paid Card	-	26,702	4,699	31,402
Private Service Providers	-	20,164,148	27,037,962	47,202,110
Satellite Carrier	-	1,209,649	889,266	2,098,915
Specialized Mobile Service Provider	-	660,451	353,415	1,013,866
Shared Tenant Service Provider	-	272,861	95,577	368,438
Toll Reseller	-	5,649,130	7,874,031	13,523,161
No Designation	-	1,260,311	243,703	1,504,014
<b>TOTALS</b>	<b>\$ 2,072,293,533</b>	<b>\$ 3,566,841,730</b>	<b>\$ 4,392,054,703</b>	<b>\$ 10,031,189,966</b>

## High Cost Support Mechanism by State, FY 2000

\* as of 01/12/01

State	Rural	Non-Rural	Total
ALABAMA	\$ 27,833,107	\$ 60,203,436	\$ 88,036,543
ALASKA	71,007,976	-	71,007,976
AMERICAN SAMOA	591,096	-	591,096
ARIZONA	35,119,341	-	35,119,341
ARKANSAS	65,800,146	6,296,805	72,096,951
CALIFORNIA	45,627,309	19,608,216	65,235,525
COLORADO	45,019,011	8,961,645	53,980,656
CONNECTICUT	885,756	-	885,756
DELAWARE	-	195,768	195,768
DISTRICT OF COLUMBIA	-	-	-
FLORIDA	19,513,407	30,831,084	50,344,491
GEORGIA	73,429,979	5,919,045	79,349,024
GUAM	3,169,872	-	3,169,872
HAWAII	1,322,772	733,659	2,056,431
IDAHO	35,219,658	646,992	35,866,650
ILLINOIS	24,461,637	6,517,116	30,978,753
INDIANA	20,203,053	10,384,110	30,587,163
IOWA	30,771,291	-	30,771,291
KANSAS	67,966,386	346,773	68,313,159
KENTUCKY	18,839,297	10,608,807	29,448,104
LOUISIANA	67,142,877	5,443,722	72,586,599
MAINE	20,584,203	11,196,111	31,780,314
MARYLAND	552,276	1,852,272	2,404,548
MASSACHUSETTS	592,452	677,373	1,269,825
MICHIGAN	38,734,554	515,859	39,250,413
MINNESOTA	46,388,859	1,341,261	47,730,120
MISSISSIPPI	23,442,921	109,658,352	133,101,273
MISSOURI	55,404,562	11,951,549	67,356,111
MONTANA	44,584,248	1,575,402	46,159,650
NEBRASKA	24,097,320	-	24,097,320
NEVADA	13,962,420	1,002,846	14,965,266
NEW HAMPSHIRE	7,693,428	997,071	8,690,499
NEW JERSEY	1,142,802	2,368,284	3,511,086
NEW MEXICO	33,693,729	3,732,735	37,426,464
NEW YORK	43,566,507	9,015,372	52,581,879
NORTH CAROLINA	24,432,168	9,638,988	34,071,156
NORTH DAKOTA	25,485,757	519,849	26,005,606
NORTHERN MARIANA IS.	3,277,953	-	3,277,953
OHIO	15,579,591	3,908,757	19,488,348
OKLAHOMA	61,944,729	4,101,213	66,045,942
OREGON	40,099,731	6,926,775	47,026,506
PENNSYLVANIA	27,296,823	1,459,563	28,756,386
PUERTO RICO	-	141,441,540	141,441,540
RHODE ISLAND	-	24,747	24,747
SOUTH CAROLINA	37,895,032	11,613,882	49,508,914
SOUTH DAKOTA	21,779,148	32,430	21,811,578
TENNESSEE	29,524,563	4,487,319	34,011,882
TEXAS	123,876,512	15,438,130	139,314,642
UTAH	11,207,955	1,220,061	12,428,016
VERMONT	10,689,645	15,292,347	25,981,992
VIRGIN ISLANDS	23,786,676	-	23,786,676
VIRGINIA	10,656,944	26,516,103	37,173,047
WASHINGTON	45,486,975	7,916,718	53,403,693
WEST VIRGINIA	25,761,273	37,249,836	63,011,109
WISCONSIN	52,473,078	1,183,647	53,656,725
WYOMING	22,589,319	7,476,039	30,065,358
Total	\$ 1,622,208,124	\$ 619,029,609	\$ 2,241,237,733



State	Rural	Non-Rural	Total
ALABAMA	\$ 26,575,617	\$ 10,857,660	\$ 37,433,277
ALASKA	68,344,536	-	68,344,536
AMERICAN SAMOA	294,228	-	294,228
ARIZONA	29,771,634	1,496,316	31,267,950
ARKANSAS	70,738,974	3,663,240	74,402,214
CALIFORNIA	44,736,507	5,496,636	50,233,143
COLORADO	42,085,920	1,805,532	43,891,452
CONNECTICUT	924,456	-	924,456
DELAWARE	-	-	-
DISTRICT OF COLUMBIA	-	-	-
FLORIDA	18,739,644	-	18,739,644
GEORGIA	69,344,733	1,616,064	70,960,797
GUAM	2,321,256	-	2,321,256
HAWAII	751,488	-	751,488
IDAHO	29,359,539	-	29,359,539
ILLINOIS	38,360,508	-	38,360,508
INDIANA	15,975,267	-	15,975,267
IOWA	25,168,639	-	25,168,639
KANSAS	64,440,405	-	64,440,405
KENTUCKY	18,219,765	983,340	19,203,105
LOUISIANA	64,843,497	-	64,843,497
MAINE	17,857,953	-	17,857,953
MARYLAND	535,176	-	535,176
MASSACHUSETTS	524,652	-	524,652
MICHIGAN	33,906,681	541,116	34,447,797
MINNESOTA	40,967,550	-	40,967,550
MISSISSIPPI	19,754,316	6,917,604	26,671,920
MISSOURI	44,717,184	5,901,816	50,619,000
MONTANA	42,155,913	1,664,328	43,820,241
NEBRASKA	20,704,698	-	20,704,698
NEVADA	10,829,472	-	10,829,472
NEW HAMPSHIRE	8,174,769	-	8,174,769
NEW JERSEY	1,364,556	-	1,364,556
NEW MEXICO	31,102,428	4,372,872	35,475,300
NEW YORK	37,864,482	-	37,864,482
NORTH CAROLINA	24,170,301	7,530,396	31,700,697
NORTH DAKOTA	21,488,916	-	21,488,916
NORTHERN MARIANA IS.	6,816,852	-	6,816,852
OHIO	15,027,336	-	15,027,336
OKLAHOMA	57,570,231	-	57,570,231
OREGON	36,656,259	-	36,656,259
PENNSYLVANIA	21,751,509	-	21,751,509
PUERTO RICO	-	133,459,656	133,459,656
RHODE ISLAND	-	-	-
SOUTH CAROLINA	37,086,594	5,098,128	42,184,722
SOUTH DAKOTA	18,360,528	-	18,360,528
TENNESSEE	28,914,939	-	28,914,939
TEXAS	114,115,233	5,128,836	119,244,069
UTAH	11,388,120	-	11,388,120
VERMONT	10,479,216	1,340,520	11,819,736
VIRGIN ISLANDS	22,973,160	-	22,973,160
VIRGINIA	11,174,628	1,165,752	12,340,380
WASHINGTON	43,224,660	-	43,224,660
WEST VIRGINIA	21,616,044	1,399,692	23,015,736
WISCONSIN	50,685,545	-	50,685,545
WYOMING	20,939,094	4,344,696	25,283,790
Total	\$ 1,515,895,608	\$ 204,784,200	\$ 1,720,679,808

## High Cost Support Mechanism by State, FY 1999

\* as of 01/12/01

## High Cost Support Mechanism by State, FY 1998

\* as of 01/12/01

State	Rural	Non-Rural	Total
ALABAMA	\$ 27,300,579	\$ 11,679,930	\$ 38,980,509
ALASKA	61,065,292	-	61,065,292
AMERICAN SAMOA	-	-	-
ARIZONA	30,726,065	2,191,648	32,917,713
ARKANSAS	63,781,687	4,919,378	68,701,065
CALIFORNIA	43,826,539	8,817,829	52,644,368
COLORADO	41,098,288	2,331,690	43,429,978
CONNECTICUT	1,197,792	-	1,197,792
DELAWARE	-	-	-
DISTRICT OF COLUMBIA	-	-	-
FLORIDA	19,031,495	671	19,032,166
GEORGIA	67,932,237	7,246,364	75,178,601
GUAM	1,941,468	-	1,941,468
HAWAII	84,411	-	84,411
IDAHO	29,113,290	449,259	29,562,549
ILLINOIS	23,531,070	-	23,531,070
INDIANA	16,330,336	-	16,330,336
IOWA	25,765,829	-	25,765,829
KANSAS	61,234,010	-	61,234,010
KENTUCKY	21,012,465	3,053,401	24,065,866
LOUISIANA	63,328,998	1,885,743	65,214,741
MAINE	18,532,579	15,114	18,547,693
MARYLAND	564,504	-	564,504
MASSACHUSETTS	490,695	-	490,695
MICHIGAN	30,652,169	1,562,275	32,214,444
MINNESOTA	38,066,560	-	38,066,560
MISSISSIPPI	18,243,826	8,654,158	26,897,984
MISSOURI	41,025,596	6,582,240	47,607,836
MONTANA	40,991,680	1,185,565	42,177,245
NEBRASKA	19,974,042	-	19,974,042
NEVADA	10,262,018	-	10,262,018
NEW HAMPSHIRE	7,827,468	639,279	8,466,747
NEW JERSEY	2,976,024	-	2,976,024
NEW MEXICO	30,666,308	2,858,208	33,524,516
NEW YORK	35,257,448	-	35,257,448
NORTH CAROLINA	24,859,562	14,238,002	39,097,564
NORTH DAKOTA	21,415,992	-	21,415,992
NORTHERN MARIANA IS.	4,236,713	-	4,236,713
OHIO	13,984,376	-	13,984,376
OKLAHOMA	57,539,217	2,234,511	59,773,728
OREGON	34,249,309	279,320	34,528,629
PENNSYLVANIA	22,319,592	-	22,319,592
PUERTO RICO	-	137,186,466	137,186,466
RHODE ISLAND	-	-	-
SOUTH CAROLINA	35,543,335	9,231,201	44,774,536
SOUTH DAKOTA	17,562,498	-	17,562,498
TENNESSEE	27,151,578	-	27,151,578
TEXAS	116,129,136	5,209,267	121,338,403
UTAH	9,827,364	-	9,827,364
VERMONT	9,692,853	1,872,225	11,565,078
VIRGIN ISLANDS	18,402,618	-	18,402,618
VIRGINIA	10,997,289	1,508,990	12,506,279
WASHINGTON	41,833,783	250,064	42,083,847
WEST VIRGINIA	22,336,198	1,977,228	24,313,426
WISCONSIN	48,966,048	313,086	49,279,134
WYOMING	18,768,230	2,845,928	21,614,158
Total	\$ 1,449,648,459	\$ 241,219,040	\$ 1,690,867,499

State	Lifeline	Link-Up	TLS	PICC	Total
ALABAMA	\$ 1,989,658	\$ 31,788	\$ 2,727	\$ 23,081	\$ 2,047,254
ALASKA	559,844	23,943	23,431	793	608,011
AMERICAN SAMOA	43,181	45,905	-	-	89,086
ARIZONA	2,141,984	143,600	76,009	41,493	2,403,086
ARKANSAS	636,105	68,362	3,064	8,204	715,735
CALIFORNIA	274,271,885	23,619,608	2,080,899	1,011,167	300,983,559
COLORADO	2,531,868	17,856	28,255	27,322	2,605,301
CONNECTICUT	5,223,597	220,849	30,122	20,528	5,495,096
DELAWARE	53,829	1,024	112	-	54,965
DISTRICT OF COLUMBIA	1,037,051	127	96	-	1,037,274
FLORIDA	13,178,635	191,542	22,936	102,990	13,496,103
GEORGIA	6,881,796	108,551	11,682	79,854	7,081,883
GUAM	178,619	13,660	-	-	192,279
HAWAII	1,136,721	282,856	-	19,572	1,439,149
IDAHO	1,891,179	26,660	37,817	21,946	1,977,602
ILLINOIS	4,629,940	365,147	2,222	46,507	5,043,816
INDIANA	1,321,720	186,993	3,034	21,483	1,533,230
IOWA	685,101	21,593	23,418	10,790	740,902
KANSAS	770,286	56,767	5,003	8,863	840,919
KENTUCKY	3,725,117	187,089	17,774	37,142	3,967,122
LOUISIANA	1,124,143	24,326	2,668	22,852	1,173,989
MAINE	7,236,230	553,898	10,752	64,919	7,865,799
MARYLAND	376,109	19,334	347	-	395,790
MASSACHUSETTS	16,033,175	114,152	-	123,747	16,271,074
MICHIGAN	12,207,923	529,933	9,562	103,837	12,851,255
MINNESOTA	4,098,365	5,051	14,456	7,602	4,125,474
MISSISSIPPI	1,531,673	24,579	3,152	20,497	1,579,901
MISSOURI	1,418,242	112,461	18,885	23,312	1,572,900
MONTANA	994,222	24,568	18,540	5,219	1,042,549
NEBRASKA	1,286,241	37,209	27,353	9,011	1,359,814
NEVADA	1,378,002	71,883	9,576	4,856	1,464,317
NEW HAMPSHIRE	457,419	20,866	-	5,294	483,579
NEW JERSEY	2,004,909	24,830	697	-	2,030,436
NEW MEXICO	3,238,522	56,508	76,621	65,718	3,437,369
NEW YORK	51,760,686	1,246,540	7,354	826,547	53,841,127
NORTH CAROLINA	5,849,090	58,722	11,134	29,153	5,948,099
NORTH DAKOTA	1,039,709	18,268	20,508	11,172	1,089,657
NORTHERN MARIANA IS.	36,865	11,673	-	-	48,538
OHIO	13,983,377	859,055	80,249	299,720	15,222,401
OKLAHOMA	637,768	49,425	4,832	3,834	695,859
OREGON	2,966,116	67,517	22,384	29,400	3,085,417
PENNSYLVANIA	4,114,640	703,386	26	3,096	4,821,148
PUERTO RICO	1,207,514	24,662	-	-	1,232,176
RHODE ISLAND	4,521,181	25,010	-	47,191	4,593,382
SOUTH CAROLINA	1,873,548	37,026	14,549	24,867	1,949,990
SOUTH DAKOTA	905,029	25,184	14,469	10,956	955,638
TENNESSEE	3,523,062	117,281	18,066	29,708	3,688,117
TEXAS	23,751,302	2,537,059	208,647	777,657	27,274,665
UTAH	1,846,158	14,338	31,281	19,198	1,910,975
VERMONT	2,796,432	40,731	3,079	10,276	2,850,518
VIRGIN ISLANDS	61,417	2,163	-	-	63,580
VIRGINIA	2,123,017	108,204	1,908	1,768	2,234,897
WASHINGTON	6,829,854	461,859	115,370	86,811	7,493,894
WEST VIRGINIA	420,028	10,981	3,299	97	434,405
WISCONSIN	5,309,686	561,662	6,031	65,834	5,943,213
WYOMING	139,194	3,094	1,280	653	144,221
Total	\$ 511,968,964	\$ 34,217,358	\$ 3,125,676	\$ 4,216,537	\$ 553,528,535

Low Income  
Support  
Mechanism  
by State,  
FY 2000

\* as of 01/12/01

Low Income  
Support  
Mechanism  
by State,  
FY 1999

\* as of 01/15/01

State	Lifeline	Link-Up	TLS	PICC	Total
ALABAMA	\$ 1,561,026	\$ 29,235	\$ 2,143	\$ 21,634	\$ 1,614,038
ALASKA	310,828	25,816	30,553	325	367,522
AMERICAN SAMOA	29,531	19,410	-	-	48,941
ARIZONA	2,063,694	85,085	63,258	23,505	2,235,542
ARKANSAS	620,252	109,017	2,387	4,962	736,618
CALIFORNIA	251,363,600	27,163,152	2,999,029	1,168,628	282,694,409
COLORADO	2,036,490	27,053	35,300	19,599	2,118,442
CONNECTICUT	4,197,814	160,581	22,772	22,707	4,403,874
DELAWARE	36,258	1,206	-	-	37,464
DISTRICT OF COLUMBIA	730,163	369	-	-	730,532
FLORIDA	10,828,555	195,854	15,826	95,738	11,135,973
GEORGIA	6,212,906	177,617	10,168	78,503	6,479,194
GUAM	50,058	11,254	-	-	61,312
HAWAII	752,805	332,235	3,520	1,837	1,090,397
IDAHO	1,154,342	15,653	18,946	13,212	1,202,153
ILLINOIS	3,019,165	340,316	2,010	42,100	3,403,591
INDIANA	1,162,964	127,117	2,713	21,552	1,314,346
IOWA	355,292	25,037	16,634	7,301	404,264
KANSAS	430,750	25,317	1,985	5,623	463,675
KENTUCKY	1,610,402	173,818	5,842	17,971	1,808,033
LOUISIANA	625,450	29,506	1,940	19,654	676,550
MAINE	5,623,853	536,465	9,556	48,270	6,218,144
MARYLAND	320,765	48,760	-	-	369,525
MASSACHUSETTS	13,951,637	179,578	-	106,529	14,237,744
MICHIGAN	9,959,181	400,465	9,671	109,550	10,478,867
MINNESOTA	3,621,720	8,244	9,371	4,419	3,643,754
MISSISSIPPI	1,084,367	25,862	1,854	16,916	1,128,999
MISSOURI	685,042	9,745	2,922	7,167	704,876
MONTANA	810,289	23,165	17,520	4,422	855,396
NEBRASKA	765,606	8,347	14,471	7,620	796,044
NEVADA	643,243	46,358	1,723	2,696	694,020
NEW HAMPSHIRE	307,858	28,101	-	3,636	339,595
NEW JERSEY	401,527	11,021	508	-	413,056
NEW MEXICO	2,729,482	115,064	80,527	57,938	2,983,011
NEW YORK	50,895,227	2,244,671	2,516	1,109,338	54,251,752
NORTH CAROLINA	3,515,271	52,038	5,144	25,863	3,598,316
NORTH DAKOTA	957,088	18,076	14,468	8,270	997,902
NORTHERN MARIANA IS.	26,498	11,506	-	-	38,004
OHIO	6,500,635	365,771	20,071	158,081	7,044,558
OKLAHOMA	154,855	34,904	1,100	2,487	193,346
OREGON	2,477,930	43,210	21,902	22,525	2,565,567
PENNSYLVANIA	2,867,974	1,422,826	25	1,645	4,292,470
PUERTO RICO	1,036,984	43,039	-	-	1,080,023
RHODE ISLAND	3,916,274	26,545	-	45,061	3,987,880
SOUTH CAROLINA	1,730,460	45,989	9,825	25,564	1,811,838
SOUTH DAKOTA	733,617	21,024	9,599	7,720	771,960
TENNESSEE	2,405,557	105,754	4,849	24,089	2,540,249
TEXAS	18,925,714	2,295,820	199,120	817,340	22,237,994
UTAH	1,624,603	28,236	31,080	15,633	1,699,552
VERMONT	2,389,683	25,770	2,110	7,274	2,424,837
VIRGIN ISLANDS	37,607	988	-	-	38,595
VIRGINIA	1,856,531	281,633	715	1,337	2,140,216
WASHINGTON	4,878,947	421,057	104,658	64,103	5,468,765
WEST VIRGINIA	413,698	19,897	411	(113)	433,893
WISCONSIN	3,837,060	456,673	4,764	70,857	4,369,354
WYOMING	102,000	714	664	289	103,667
Total	\$ 441,341,128	\$ 38,481,964	\$ 3,816,170	\$ 4,341,377	\$ 487,980,639

State	Lifeline	Link-Up	TLS	PICC	Total
ALABAMA	\$ 1,155,253	\$ 32,696	\$ 1,770	\$ 13,494	\$ 1,203,213
ALASKA	150,265	14,250	8,068	42	172,625
AMERICAN SAMOA	-	-	-	-	-
ARIZONA	878,425	9,770	8,726	997	897,918
ARKANSAS	446,895	122,672	2,374	3,901	575,842
CALIFORNIA	203,090,574	21,882,621	1,003,975	391,411	226,368,581
COLORADO	1,448,748	38,120	15,651	6,800	1,509,319
CONNECTICUT	2,927,171	173,009	22,885	17,442	3,140,507
DELAWARE	18,079	2,142	-	-	20,221
DISTRICT OF COLUMBIA	-	-	-	-	-
FLORIDA	8,208,342	158,672	8,113	56,753	8,431,880
GEORGIA	5,097,250	173,308	6,397	40,722	5,317,677
GUAM	15,187	3,416	-	-	18,603
HAWAII	430,940	4,690	-	-	435,630
IDAHO	454,878	10,026	5,495	930	471,329
ILLINOIS	1,379,413	257,186	711	11,832	1,649,142
INDIANA	604,048	81,988	1,125	6,984	694,145
IOWA	97,808	22,366	7,422	1,117	128,713
KANSAS	280,741	25,060	864	1,395	308,060
KENTUCKY	213,498	120,873	3,281	3,912	341,564
LOUISIANA	276,661	67,281	1,130	8,559	353,631
MAINE	4,313,821	394,548	16,543	14,143	4,739,055
MARYLAND	267,887	-	-	-	267,887
MASSACHUSETTS	11,320,049	93,628	-	43,033	11,456,710
MICHIGAN	7,886,365	315,711	6,783	56,527	8,265,386
MINNESOTA	2,750,861	12,763	2,656	730	2,767,010
MISSISSIPPI	709,828	33,477	978	7,391	751,674
MISSOURI	446,998	83,935	2,487	1,379	534,799
MONTANA	502,487	16,831	8,143	1,602	529,063
NEBRASKA	452,347	7,059	10,653	2,496	472,555
NEVADA	158,581	1,200	385	52	160,218
NEW HAMPSHIRE	119,803	20,763	-	540	141,106
NEW JERSEY	247,152	20,486	115	-	267,753
NEW MEXISO	2,048,832	97,073	58,521	25,277	2,229,703
NEW YORK	45,017,585	4,563,584	19	801,818	50,383,006
NORTH CAROLINA	1,870,554	29,354	1,588	9,970	1,911,466
NORTH DAKOTA	639,879	19,432	9,101	3,679	672,091
NORTHERN MARIANA IS.	5,389	2,618	-	-	8,007
OHIO	4,185,468	257,456	20,236	79,333	4,542,493
OKLAHOMA	84,079	39,649	714	679	125,121
OREGON	1,887,404	34,622	15,632	7,601	1,945,259
PENNSYLVANIA	1,309,562	718,252	88	11	2,027,913
PUERTO RICO	430,343	52,102	-	-	482,445
RHODE ISLAND	3,040,105	24,464	-	15,586	3,080,155
SOUTH CAROLINA	1,487,442	29,568	5,006	17,609	1,539,625
SOUTH DAKOTA	507,290	27,013	12,983	2,593	549,879
TENNESSEE	1,453,349	63,227	1,059	8,044	1,525,679
TEXAS	14,064,749	1,862,986	142,141	122,661	16,192,537
UTAH	1,387,943	31,104	20,392	7,587	1,447,026
VERMONT	1,821,823	19,878	394	2,120	1,844,215
VIRGIN ISLANDS	31,094	1,457	-	-	32,551
VIRGINIA	1,409,308	23,027	362	-	1,432,697
WASHINGTON	3,110,223	348,719	72,708	23,966	3,555,616
WEST VIRGINIA	273,741	36	-	211	273,988
WISCONSIN	2,018,671	295,794	2,369	38,505	2,355,339
WYOMING	76,069	318	355	102	76,844
Total	\$ 344,511,257	\$ 32,742,280	\$ 1,510,398	\$ 1,861,536	\$ 380,625,471

Low Income  
Support  
Mechanism  
by State,  
FY 1998

\* as of 01/15/01

# Rural Health Care Support Mechanism

## Funding Commitments

State <sup>1</sup>	Year 1	Year 2 <sup>2</sup>
ALABAMA	\$ 9,199	\$ -
ALASKA	629,582	4,730,840
ARIZONA	302,740	171,961
ARKANSAS	13,354	85,194
CALIFORNIA	9,982	87,663
COLORADO	59,471	48,531
HAWAII	100,823	86,491
IDAHO	21,645	26,501
ILLINOIS	89,858	64,289
INDIANA	-	-
IOWA	69,116	20,070
KANSAS	91,974	138,223
LOUISIANA	-	3,958
MAINE	1,150	-
MASSACHUSETTS	247	-
MICHIGAN	208,000	112,672
MINNESOTA	276,854	229,857
MISSISSIPPI	45,050	30,023
MISSOURI	60,959	36,550
MONTANA	246,626	135,713
NEBRASKA	79,848	264,679
NEVADA	58,236	-
NEW HAMPSHIRE	13,558	18,463
NEW MEXICO	122,723	135,942
NEW YORK	124,386	168
NORTH CAROLINA	29,679	81,856
NORTH DAKOTA	317,292	53,647
OHIO	38,389	31,761
OKLAHOMA	20,537	9,931
OREGON	13,219	4,993
PENNSYLVANIA	49,104	-
SOUTH CAROLINA	13,199	9,943
SOUTH DAKOTA	75,517	37,725
TENNESSEE	9,991	5,052
TEXAS	15,749	93,606
UTAH	29,535	-
VERMONT	4,613	29
VIRGINIA	44,902	3,608
VIRGIN ISLANDS	7,987	-
WASHINGTON	30,659	18,095
WEST VIRGINIA	14,941	4,157
WISCONSIN	16,922	804
WYOMING	30,602	715
<b>Total</b>	<b>\$ 3,398,219</b>	<b>\$ 6,783,710</b>

<sup>1</sup> There are no eligible rural areas in DC, DE, NJ and RI.

There were no supportable applications from CT, FL, GA, KY or MD.

<sup>2</sup> Commitments processed through 12/31/00 (approximately 95% of expected total)

State	Year 1	Year 2	Year 3	Total
ALABAMA	\$ 46,906	\$ 26,653	\$ 18,713	\$ 92,272
ALASKA	13,488	12,189	11,964	37,641
AMERICAN SAMOA	3,557	2,704	2,071	8,332
ARIZONA	35,699	38,810	44,965	119,474
ARKANSAS	13,455	10,541	17,341	41,337
CALIFORNIA	212,346	256,722	471,583	940,651
COLORADO	14,319	12,425	14,152	40,896
CONNECTICUT	24,198	32,134	24,479	80,811
DELAWARE	1,019	1,394	1,396	3,809
DISTRICT OF COLUMBIA	4,867	9,399	9,400	23,666
FLORIDA	49,780	76,131	53,437	179,348
GEORGIA	78,385	91,820	48,088	218,293
GUAM	-	-	852	852
HAWAII	5,892	5,377	2,578	13,847
IDAHO	4,621	5,127	2,659	12,407
ILLINOIS	81,068	162,669	114,263	358,000
INDIANA	21,978	22,879	19,344	64,201
IOWA	7,360	8,144	5,273	20,777
KANSAS	10,443	15,018	7,754	33,215
KENTUCKY	50,356	57,647	26,242	134,245
LOUISIANA	40,237	38,108	25,466	103,811
MAINE	3,007	3,649	3,448	10,104
MARYLAND	15,059	22,064	19,003	56,126
MASSACHUSETTS	30,426	33,908	46,331	110,665
MICHIGAN	58,633	79,581	56,111	194,325
MINNESOTA	24,759	29,432	17,427	71,618
MISSISSIPPI	25,252	30,240	30,408	85,900
MISSOURI	25,220	28,849	72,293	126,362
MONTANA	3,727	3,786	3,122	10,635
NEBRASKA	4,948	6,812	6,111	17,871
NEVADA	5,381	3,148	4,041	12,570
NEW HAMPSHIRE	1,620	1,269	1,241	4,130
NEW JERSEY	62,879	43,467	42,226	148,572
NEW MEXICO	19,309	29,198	18,569	67,076
NEW YORK	170,284	199,027	275,365	644,676
NORTH CAROLINA	26,976	37,801	27,393	92,170
NORTH DAKOTA	2,618	2,212	1,722	6,552
NORTHERN MARIANA IS.	-	95	499	594
OHIO	59,232	43,583	60,904	163,719
OKLAHOMA	33,679	34,185	24,481	92,345
OREGON	9,722	11,108	10,484	31,314
PENNSYLVANIA	52,261	56,634	52,237	161,132
PUERTO RICO	47,647	67,843	76,755	192,245
RHODE ISLAND	6,010	7,831	4,293	18,134
SOUTH CAROLINA	26,361	32,480	51,112	109,953
SOUTH DAKOTA	2,974	2,172	1,795	6,941
TENNESSEE	51,686	61,630	46,536	159,852
TEXAS	130,202	136,149	153,408	419,759
UTAH	6,390	5,877	5,095	17,362
VERMONT	2,083	1,606	1,670	5,359
VIRGIN ISLANDS	2,180	2,348	732	5,260
VIRGINIA	26,123	25,331	18,488	69,942
WASHINGTON	30,434	34,242	18,190	82,866
WEST VIRGINIA	9,365	9,381	5,426	24,172
WISCONSIN	38,294	26,140	25,396	89,830
WYOMING	1,221	4,984	1,127	7,332
Total	\$ 1,735,936	\$ 2,003,953	\$ 2,105,459	\$ 5,845,348

Schools and  
Libraries  
Support  
Mechanism

*Funding  
Commitments  
by State  
(in thousands)*

# Schools and Libraries Support Mechanism

## Funding Commitments by Rural/ Urban Statistics and Entity Type

### Year 3 Commitments

	# of Applications	% of Applications	Amount	% of \$
Rural	12,438	47.25%	\$ 653,494,451	31.04%
Urban	13,882	52.74%	1,450,847,003	68.91%
N/A	4	0.02%	1,117,071	0.05%
Total	26,324	100.00%	\$ 2,105,458,524	100.00%

Applicant Type	# of Applications	% of Applications	Amount	% of \$
School	6,419	24.38%	\$ 120,548,251	5.73%
School District	14,585	55.41%	1,714,892,727	81.45%
Library/Library Consortium	4,507	17.12%	65,753,762	3.12%
SLC Consortium	813	3.09%	204,263,785	9.70%
Total	26,324	100.00%	\$ 2,105,458,524	100.00%

### Year 2 Commitments

	# of Applications	% of Applications	Amount	% of \$
Rural	13,101	43.73%	\$ 575,777,477	28.73%
Urban	16,736	55.86%	1,424,814,214	71.10%
N/A	124	0.41%	3,361,239	0.17%
Total	29,961	100.00%	\$ 2,003,952,930	100.00%

Applicant Type	# of Applications	% of Applications	Amount	% of \$
School	7,894	26.35%	\$ 174,271,583	8.70%
School District	16,300	54.40%	1,479,920,521	73.85%
Library/Library Consortium	4,746	15.84%	61,235,484	3.06%
SLC Consortium	1,021	3.41%	288,525,343	14.40%
Total	29,961	100.00%	\$ 2,003,952,930	100.00%

### Year 1 Commitments

	# of Applications	% of Applications	Amount	% of \$
Rural	11,207	43.22%	\$ 529,329,318	30.49%
Urban	14,180	54.69%	1,160,858,555	66.87%
N/A	543	2.09%	45,748,214	2.64%
Total	25,930	100.00%	\$ 1,735,936,087	100.00%

Applicant Type	# of Applications	% of Applications	Amount	% of \$
School	6,884	26.55%	\$ 110,504,088	6.37%
School District	13,201	50.91%	1,291,854,513	74.42%
Library/Library Consortium	4,705	18.15%	68,155,381	3.93%
SLC Consortium	1,140	4.40%	265,422,105	15.29%
Total	25,930	100.00%	\$ 1,735,936,087	100.00%



# Schools and Libraries Support Mechanism

## Funding Commitments

### Year 3 Commitments

Discount Band	Telcomm & Dedicated	Internet Access	Internal Connections	Total \$	% of \$ by Discount Band
20 - 29%	\$ 1,185,747	\$ 504,179	\$ -	\$ 1,689,926	0.08%
30 - 39%	4,901,236	1,262,683	-	6,163,920	0.29%
40 - 49%	85,855,316	25,809,141	-	111,664,457	5.30%
50 - 59%	93,473,842	24,808,489	-	118,282,331	5.62%
60 - 69%	114,476,943	49,409,857	-	163,886,800	7.78%
70 - 79%	187,551,934	34,380,175	-	221,932,109	10.54%
80 - 89%	157,554,905	53,817,319	621,128,299	832,500,523	39.54%
90%	44,886,321	22,458,867	581,993,271	649,338,460	30.84%
Total	\$ 689,886,243	\$ 212,450,711	\$ 1,203,121,570	\$ 2,105,458,524	100.00%
Percent	32.77%	10.09%	57.14%	100.00%	

### Year 2 Commitments

Discount Band	Telcomm & Dedicated	Internet Access	Internal Connections	Total \$	% of \$ by Discount Band
20 - 29%	\$ 1,710,716	\$ 468,700	\$ 1,870,993	\$ 4,050,408	0.20%
30 - 39%	4,258,465	383,386	1,980,284	6,622,135	0.33%
40 - 49%	77,325,707	12,088,585	48,957,542	138,371,834	6.90%
50 - 59%	88,965,932	17,238,776	75,622,909	181,827,617	9.07%
60 - 69%	117,712,683	47,973,834	115,473,642	281,160,160	14.03%
70 - 79%	138,227,350	32,088,606	140,131,091	310,447,047	15.49%
80 - 89%	124,492,575	23,107,210	438,882,176	586,481,961	29.27%
90%	54,233,434	16,243,405	424,514,929	494,991,769	24.70%
Total	\$ 606,926,862	\$ 149,592,502	\$ 1,247,433,566	\$ 2,003,952,930	100.00%
Percent	30.29%	7.46%	62.25%	100.00%	

### Year 1 Commitments

Discount Band	Telcomm & Dedicated	Internet Access	Internal Connections	Total \$	% of \$ by Discount Band
20 - 29%	\$ 1,902,108	\$ 326,099	\$ 582,944	\$ 2,811,150	0.16%
30 - 39%	5,176,614	537,276	994,538	6,708,429	0.39%
40 - 49%	92,514,987	11,668,259	2,563,819	106,747,064	6.15%
50 - 59%	89,666,496	15,690,235	1,091,522	106,448,253	6.13%
60 - 69%	115,628,563	45,564,284	12,024	161,204,870	9.29%
70 - 79%	138,256,070	36,755,472	157,004,602	332,016,143	19.13%
80 - 89%	157,388,101	19,211,532	405,988,789	582,588,421	33.56%
90%	79,556,165	5,915,320	351,940,272	437,411,757	25.20%
Total	\$ 680,089,102	\$ 135,668,476	\$ 920,178,509	\$ 1,735,936,087	100.00%
Percent	39.18%	7.82%	53.01%	100.00%	



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