

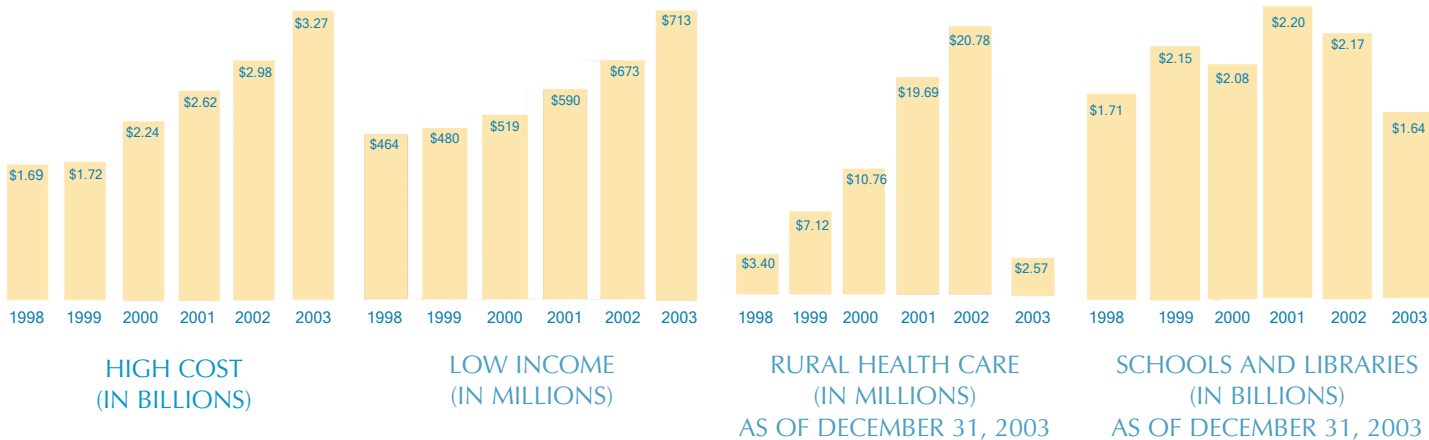
The logo for USAC, featuring the letters "USAC" in a bold, blue, serif font. A thin, white, curved line arches over the letters, starting from the left side of the "U" and ending under the "C".

USAC

Universal Service Administrative Company

2003 Annual Report

# UNIVERSAL SERVICE SUPPORT MECHANISMS AT A GLANCE



Funding commitments for the Rural Health Care and Schools and Libraries Support Mechanisms are reported on this page in funding years. For these two mechanisms, funding years run from July 1 through June 30. Disbursements for the High Cost and Low Income Support Mechanisms are reported on a calendar year basis.

USAC submits this annual report to Congress and the FCC in accordance with 47 CFR § 54.702(g), which requires USAC to report on the "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."

## TABLE OF CONTENTS

USAC DIVISIONS AT A GLANCE

2

MESSAGE FROM THE CHAIRMAN OF THE BOARD

3

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

4

QUALITY

5

ACCOUNTABILITY

7

INTEGRITY

9

PROGRAM PARTICIPANTS

12

APPENDIX A:  
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS  
AND 2002 FINANCIAL REPORT

14

APPENDIX B:  
DETAILED TABLES

26

BOARD OF DIRECTORS

33

CORPORATE INFORMATION

34

# USAC DIVISIONS

USAC is an independent not-for-profit corporation regulated by the Federal Communications Commission (FCC). The purpose of USAC is to administer the Universal Service Fund (USF) through four support mechanisms: High Cost, Low Income, Rural Health Care, and Schools and Libraries. These four support mechanisms ensure that all people regardless of location or income level have affordable access to telecommunications and information services. In order to administer the four support mechanisms, USAC is comprised of six divisions.

## High Cost and Low Income

Responsible for the High Cost and Low Income support mechanisms, which aim to meet the goal of providing consumers in all parts of the country with affordable telephone service, regardless of where they live or their level of income. The \$3.27 Billion High Cost support mechanism has assisted over 1,400 companies serving customers in high cost areas. In 2003, USAC distributed over \$700 million in Low Income Support to provide over 6 million households with discounts on telephone service.

## Internal Audit

Improves program integrity by conducting audits of USAC and the support mechanisms. The Internal Audit Division performs process reviews and analysis of support mechanism operations. The Internal Audit Division is also responsible for audits of beneficiaries and service providers as well as monitoring the work performed by external auditors.

## Rural Health Care

Administers the Rural Health Care support mechanism, which assists qualified rural health care providers, ensuring that they pay no more than their urban counterparts for comparable telecommunications services. This mechanism continues to grow through program changes and extensive outreach. Since 1999, applications to this support mechanism have risen on average over 25% each year. With the addition of Internet services for the 2004 funding year, USAC expects this trend to continue.



## Finance

Provides billing, collections and disbursements for the universal service fund. Responsible for the overall integrity of USAC's investments, assets, and financial statements.

## Schools and Libraries

Administers the Schools and Libraries support mechanism, which makes advanced telecommunications affordable for the nation's schools and libraries. Also known as the "E-Rate", this mechanism provides discounts on the costs of the services, with the highest discounts going to entities serving the most disadvantaged sections of the population. In 2003 over 100,000 schools and libraries were funded.

## Strategic Planning and Operations

Responsible for focusing USAC's resources, anticipating future needs and providing a measurement of its success. Oversees all information technology and human resource issues. Assists the other divisions by constructing and implementing reporting and operational tools, as well as other services.

## FROM THE CHAIRMAN OF THE BOARD

In past letters to stakeholders in USAC's annual reports, I have highlighted the prior year's accomplishments and reflected on the challenges ahead. This year's letter demands reflection in a different, more comprehensive sense because of the departure of our founding Chief Executive Officer, Cheryl Parrino. In 1997, the Federal Communications Commission (FCC) ordered the establishment of USAC to administer the new universal service support mechanisms that were created by the Telecommunications Act of 1996. The Chairman of the Commission appointed a Board of Directors representing all stakeholders in the nascent support mechanisms and directed the Board to get to work.

Over the next five years, the USAC Board made many decisions, but none more important — and none better — than the decision to entrust Cheryl with the management of this important and far-reaching enterprise. Cheryl has built USAC from the ground up. As Cheryl departs USAC, I want to take this opportunity to salute her leadership and recognize some of her many achievements both in 2003 and throughout her tenure.

The hallmarks of Cheryl's five years as CEO have been her careful, responsible, and efficient stewardship of the Universal Service Fund (USF); her responsiveness to the demands of USAC's many and competing stakeholders; ensuring credible accountability to the FCC, Congress, and the public, steering the Board and the staff with her firm but low-key hand; and most critically, integrity in everything she has done. Through personal example, she has established a culture of the utmost ethical integrity and professionalism at all levels at USAC.

Cheryl successfully led USAC as its mission expanded and the funds entrusted to the company increased substantially. First, she led the merger



effort through which USAC assumed the administration of the Rural Health Care and Schools and Libraries support mechanisms. She then guided the organization as USAC was called upon to

implement extensive modifications to all four support mechanisms as well as the manner in which the USF is funded and managed. In 2003 alone, USAC implemented many policy changes to each of the support mechanisms, substantially increased its audit program to assess program integrity, and overhauled its financial operations structure to increase accountability and to meet new FCC requirements.

I am extremely proud of USAC's accomplishments but am deeply saddened that Cheryl has decided to move on. I have greatly valued our personal and professional relationship. We will all miss her greatly, but I am optimistic that USAC will meet the challenges of 2004 and beyond based in large measure on the organization she has created and the culture she has nurtured.

A handwritten signature in black ink that reads "Frank J. Gumper". The signature is written in a cursive, flowing style.

Frank J. Gumper  
Chairman of the Board

**“The hallmarks of Cheryl's five years as CEO have been her careful, responsible, and efficient stewardship of the Universal Service Fund.” Frank J. Gumper, Chairman of the Board, USAC.**

## FROM THE CHIEF EXECUTIVE OFFICER

It is difficult for me to know how to begin what will be my final annual report letter to our stakeholders as USAC CEO. Each of my five years at USAC has been filled with challenges, changes, and opportunities — none more so than in 2003. This year USAC implemented major changes to each of the universal service support mechanisms and the way in which they are funded, aggressively expanded our audit program and program integrity measures, initiated extensive changes in our internal operations so we may better serve our stakeholders, implemented revised governance measures intended to strengthen corporate governance and increase transparency and Board of Directors oversight, consolidated our Washington, DC offices under one new roof, and began the changes necessary to embrace new leadership as I prepare to move on to the next phase of my life and career.

I was honored to have been selected by the Board of Directors and Chairman of the FCC as USAC's first CEO in 1998. At that time, USAC had no employees, no offices, and a daunting mission — implementing much of the complex universal service mandates arising out of the Telecommunications Act of 1996. In 1999, USAC successfully merged the Rural Health Care and Schools and Libraries Corporations into USAC, assuming administrative responsibility for the remaining components of universal service support, the Rural Health Care and Schools and Libraries support mechanisms. Since then, we have grown as a company and integrated our operations to better serve all of our customers — Congress, the FCC, service providers, applicants, and most of all, the general public who rely on the universal service support mechanisms.

I am extremely proud of the team we have built and of our accomplishments thus far. We have swiftly and successfully implemented dozens of



changes to the support mechanisms as directed by the FCC. We have implemented aggressive measures to protect the integrity of the Universal Service Fund with which we are entrusted. Our review of requests for support is exhaustive. Our audit program is aggressive and continues to expand. We have dealt with the effects of the tremendous upheaval in the telecommunications industry. We expanded our outreach efforts, both to educate the public and to address underserved communities. We have streamlined our operations, adding e-commerce capabilities such as online filing of forms and online data access wherever possible. We have kept administrative costs extremely low as a percentage of the overall fund.

As I move on, my heartfelt thanks go to each and every USAC Board and staff member — current and past — for their untiring efforts. We have worked hard together to come this far. There is still much work to be done, but I depart knowing that the USAC Board of Directors and USAC's wonderful staff are filled with smart, energetic, creative people who are genuinely dedicated to bringing the benefits of universal service to every state and territory of this great country. I wish much success to USAC's next CEO.

A handwritten signature in cursive script that reads "Cheryl L. Parrino".

Cheryl L. Parrino  
Chief Executive Officer

**“As I move on, my heartfelt thanks go to each and every USAC Board and staff member – current and past – for their untiring efforts. We have worked hard together to come this far.” Cheryl Parrino, Chief Executive Officer, USAC.**



FCC Chairman Michael K. Powell introducing new changes to the Rural Health Care support mechanism at the University of Virginia's Medical Center

Over the last six years, USAC has remained committed to ensuring that all Americans receive the benefits of universal service. To that end, USAC strives to maintain the highest standards of customer service and administrative efficiency in its funding, billing, and collection processes. USAC continually revisits each of these areas to improve delivery and overall quality. We achieved notable success in 2003.

#### NEW PROCEDURES IMPROVE QUALITY

Program integrity assurance is a critical component of all four support mechanisms. By sampling the data and reviewing the funding process on an ongoing basis, USAC is able to anticipate trends and respond more quickly to problems that may arise.

In 2003, the High Cost and Low Income Division (HCLID) distributed more than \$3.7 billion in support to more than 1,400 participating telephone carriers in all 50 states and territories. HCLID strives for 100% accuracy in its support payments. To achieve this goal, HCLID implemented several new initiatives in 2003. HCLID increased its quality assurance review of support payments by dedicating more resources to this function, provided standard formats and training to carriers for data submission to increase the quality of data submitted, and improved customer support. The results of these initiatives have been excellent and will be expanded in 2004 to achieve even better results.

HCLID completed a competitive procurement process in 2003 that resulted in the selection of a new contractor to provide High Cost and Low Income administrative support services in 2004. Anticipated enhancements to the funding process include a higher degree of automation, a dedicated customer service bureau, and heightened data validation.

Rural Health Care Division (RHCD) staff performs regular quality control reviews of applications that are processed by the contractor handling data collection and providing administrative support. In

addition, performance guarantees are built into the operating contracts of vendors working with the Schools and Libraries Division (SLD) and RHCD and are monitored on a monthly basis. Customer service support, timeliness of form data entry, and quality of application processing are a few of the components that undergo this measurement. Such spot audits and performance guarantees ensure accuracy and decrease the time necessary to process applications.

Last year, the RHCD streamlined its online application by creating pre-populated forms for repeat participants and providing for electronic signature of online applications. These changes produced excellent results. For the Funding Year 2003, nearly 90% were electronically signed and submitted, reducing the burden for applicants and reducing data entry time and errors for RHCD. Due to this simplification of the process coupled with increased outreach RHCD has been conducting applications to date for Funding Year 2003 (ending June 30, 2004) are up 35% (500 applications) over where they were at this point in Funding Year 2002.

On November 13, 2003, the FCC adopted an order that allows rural health care providers to claim 25% of their monthly Internet connection charges under the universal service program. Dedicated emergency departments of rural for-profit hospitals and non-profit entities that function as health care providers on a part-time basis are also now eligible to receive prorated support. Without such changes, healthcare providers would pay more for their services or perhaps even go without access.

SLD enhanced customer service by adding an integrated voice response system to its client service bureau. This feature allows a customer to access quickly the most critical information about its application. Last year's introduction of a simpler method of online filing of applications for the Schools and Libraries support mechanism has resulted in significantly more requests filed online

**“The numerous and ever-expanding applications of telemedicine allow rural healthcare providers to reduce the burdens associated with treating people in remote areas through utilization of technology.”**

**Chairman Michael K. Powell, Federal Communications Commission  
at the University of Virginia Office of Telemedicine, Charlottesville, VA**

which enables a faster turn around time on applications. Automated data capture and other technology has also improved accuracy of hard copy applications and helped to eliminate human error.

As of 2003, submitting an application to SLD is available electronically through an online customer friendly "interview" process. The interview application process works by asking the participant detailed questions and then populates the data on the actual form. This question and answer methodology prevents gaps in the application and helps the applicant to provide more accurate data. In 2003, 95% percent of the funds requested from the Schools and Libraries support mechanism were done so electronically.

#### BILLING, COLLECTIONS, AND FINANCE

USAC implemented numerous significant improvements in the finance area in 2003. USAC billed more than 2,500 telecommunications companies per month and collected an average of nearly \$500 million per month in 2003. USAC's billing is processed on time and with high confidence. Over the last year, notices were sent out with less than a 1% error rate. According to USAC's internal operating procedures, these invoices must be processed and mailed within a five business day window each month. During 2003, USAC met this requirement without fail. USAC's Finance Division also continued to decrease the time needed to clear outstanding accounts receivables as compared to the amount billed. This performance ratio, Days Sales Outstanding (DSO), fell by 5.2% between the second and third quarter of 2003.

Stabilization of the outstanding accounts receivables and the increased collections enforcement brought about by the Debt Collection Improvement Act (DCIA) are the primary factors that contributed to this success. Under the DCIA, USAC transfers uncollectible accounts over 90 days old to the FCC for collection and then on to the Treasury Department after another 30 days if still outstanding. Delinquent carriers were notified of the new collection process before implementa-

tion; the letters alone resulted in a reduction in the number of delinquent accounts. In over 99 percent of delinquent cases, USAC has been able to



The Mobile Breast Cancer Center at the Tuba City Indian Medical Center in Arizona is a recipient of support from RHCD.

collect the outstanding funds within 180 days.

To complement the DCIA, in 2003 USAC established an electronic online form to collect the quarterly revenue data, which is necessary to calculate the contribution factor and properly invoice the contributing telecommunications companies. Doing so electronically, rather than by mail, is far superior, because data is more quickly analyzed and invoices are processed much faster and more accurately. The data is also captured electronically for the end of the year "true-up" for these companies. During this period, the projected revenues are reconciled with actual revenues. By having the telecommunications companies provide and certify this data, the process properly focuses the accountability for this information on the telecommunications company, and there is less of a chance that USAC will make an administrative error.

The Finance Division of USAC transitioned the billing and collection function from an outsourced arrangement to USAC in 2003. The transition and integration of 40 staff positions and their responsibilities have been completed. This change has further increased the efficiency and accuracy of USF billing and disbursement and has enhanced customer service as well.



The E-Rate program provides children with the tools they will need to succeed in the 21st Century.

The administration of the Universal Service support mechanisms is the responsibility of USAC under the diligent oversight and guidance of the FCC. As in prior years, USAC and the FCC worked in concert to achieve the overall mission of the USF. The Telecommunications Act of 1996 established the framework through which Congress and the FCC hold USAC accountable for the management of the USF. USAC, in turn, holds its contractors, program participants, and contributors accountable to the 1996 Act and all successive orders and regulations issued by the FCC.

Layers of accountability are also present within USAC. USAC's Chief Executive Officer (CEO) and the Board of Directors are directly accountable to the FCC. In turn, the Board and CEO hold the officers and all staff accountable for the management and integrity of the USF.

#### BOARD OF DIRECTORS

USAC's Board of Directors plays an integral part in the management of USAC. The members oversee all programmatic activities, approve budgets and provide consultation based on their wealth of experience and positions in the industries and organizations served by the USF. The Board is divided into three programmatic committees — the High Cost & Low Income Committee, Rural Health Care Committee, and Schools & Libraries Committee — and two administrative committees — the Audit Committee and Executive Committee. Each committee, along with the full Board, plays a vital role in directing the administration of the USF and guiding the operation of each of the support mechanisms as well as ensuring program integrity.

#### FEDERAL COMMUNICATIONS COMMISSION

The Chairman of the FCC selects USAC's Board of Directors, including its CEO. Further, the FCC's Wireline Competition Bureau serves as the primary entity that interfaces with USAC and guides its programmatic operations. The Office of the Inspector General (OIG) also provides oversight of USAC operations and in particular, the OIG works very closely with the Internal Audit Division (IAD) of USAC.

USAC and FCC staff meet regularly to raise issues about and confer on the administration of Universal Service. While this close relationship strengthens USAC's accountability to the FCC, it also keeps both organizations tuned to the needs of program participants. Such an active dialog ensures that USAC is prepared to act on new FCC orders and remain compliant with FCC regulations.

#### CONGRESS

USAC maintains open lines of communication with Congress and works with its members to respond to constituent inquiries. USAC also provides information on an ongoing basis to assist members of Congress and its Committees in their oversight activity. Finally, USAC also responds to General Accounting Office (GAO) requests for information as well as any specific committee requests.

#### PROGRAM PARTICIPANTS

The funding process for each of the four support mechanisms is refined and augmented yearly. USAC endeavors to provide a transparent process and routinely invites participants to share their thoughts and comments. Two of the ways that USAC engages participants are through regular conference calls and multiple listservs, both of which keep interested parties informed regarding rules and program changes, but also serve as valuable feedback mechanisms. USAC operates its own toll-free call center and is available to answer applicant questions Monday through Friday from 8 a.m. to 8 p.m. (EST).

All program participants are accountable for following the program rules established by the FCC, laws passed by Congress, and state and local laws as they pertain to the support mechanisms. For example, many of the forms require participants to certify that they have followed applicable federal, state, and/or local laws. In order to receive High Cost or Low Income support, a telecommunications carrier must be designated by its state or the FCC as an eligible telecommunications carrier. Without this designation, a telecommunications carrier cannot receive High Cost or Low Income support. In addition, for High Cost support, eligi-



ble telecommunications carriers must be annually certified by the state for intrastate support or self-certify for interstate support that the carrier is using the funds received in a manner consistent with FCC rules. To receive High Cost or Low Income support, carriers are required to submit data and attest to the accuracy of the data submitted; thus accountability is passed on to the individual companies. HCLID reviews of designations, eligibility, and data submissions strengthen this accountability and help to reduce waste, fraud, and abuse in these support mechanisms.

Each support mechanism requires applicant accountability and USAC has administrative procedures in place to verify compliance. These procedures include audits, automated computer checks, and outreach to applicants to clarify information on applications as well as on invoices submitted for payment.

#### OUTREACH

Outreach to program participants is a vital component of accountability. Program participants must know the rules and must receive appropriate guidance from USAC. While USAC's website, [www.universalservice.org](http://www.universalservice.org), might be the most visible form of outreach, the website is further complemented by mailings to applicants and companies, attendance at association meetings, outreach conference calls, and workshops. USAC continued to expand and refine its outreach efforts in 2003.

HCLID performs a wide variety of outreach to its participants. HCLID works with trade associations on a regular basis to educate their members by performing workshops, giving speeches, and displaying informational material about USAC's mission at various conferences and trade shows. In 2003, HCLID introduced two new initiatives designed to provide information to participants and prospective beneficiaries. First, the HCLID mailed quarterly reminder letters of filing deadlines to all companies that receive High Cost support. In addition, in an effort to increase participation in the Low Income support mechanism by reaching out to all Americans, the Low Income

support mechanism's section of the website is now offered in Spanish. These two new efforts complement HCLID's ongoing outreach activities.

Through its continued outreach efforts in 2003, RHCD has significantly expanded the size of the program. RHCD meets with the National Association of State Telecom Directors on a biweekly basis as well as participates in the Joint Working group of Telemedicine. During 2003, RHCD staff made presentations to the Michigan Telehealth Policy Group's quarterly meeting, the Office for the Advancement of Telehealth Grantee Workshop and the American Telemedicine Association, to name a few. Also, RHCD conducts monthly outreach calls to vendors and program participants.

SLD continued its aggressive outreach programs in 2003. SLD's annual "train-the-trainer" workshop, held on September 24-26, was a great success. USAC offered a beginners' session for those state-level trainers fairly new to the program. As a whole, this training offered updates on developments during the past year, common issues or concerns with applications, detailed information on E-rate with an emphasis on program compliance issues, and a panel discussion by FCC staff. In September, SLD entered into a four-month contract with WebEx to test the efficiency, participation and outreach potential of web-based training for both service providers and applicants. SLD also communicates essential program information via its website and by direct contact with its many stakeholders.

#### CONTRACTORS

USAC's contractors serve in varied administrative support capacities. Each was selected after a competitive bid process and is monitored vigorously for performance and quality. In 2003, USAC contracted with the National Exchange Carrier Association (NECA), NECA Services Inc., IBM Consulting, and Rhoads and Sinon. All performed the tasks associated with their respective contracts in a satisfactory manner. The FCC requires USAC to have the work performed by these contractors audited by an outside auditor.



Mel Blackwell, Vice President of the Rural Health Care Division, staffing a booth at the American Public Health Association's 131st Annual Meeting and Exposition.

**In an effort to increase participation in the Low Income support mechanism by reaching out to all Americans, the Low Income support mechanism's section of the website is now offered in Spanish.**

USAC's primary duty as administrator of the universal service support mechanisms is to ensure the overall integrity of the USF. By following extensive and detailed program integrity assurance procedures for all funding requests and by being vigilant, USAC endeavors to ensure that the USF is administered in accordance with the Telecommunications Act of 1996 and all FCC orders, regulations, and directives.

USAC is governed by a 19-member Board of Directors representing virtually all USF stakeholders. By FCC requirement, the Board is composed of representatives from a variety of telecommunications service providers, eligible applicant groups, consumer advocates, and state regulators. Each member of the Board has an absolute fiduciary duty to USAC and the USF in addition to representing the interests of the member's constituency.

In 2003, USAC further expanded its efforts to protect the USF. USAC's system of program integrity assurance is designed to prevent misapplication of funds and disbursement to unauthorized entities. USAC has controls in place to ensure to the fullest extent possible that all participants are eligible prior to disbursing any payment. Preventing ineligible payments of funds at an early stage — before funds are actually disbursed — is key to maintaining program integrity. In addition, USAC responds to audit findings with operational and procedural changes where appropriate.

Requests for funding to the Rural Health Care and Schools and Libraries support mechanisms undergo extensive scrutiny. Large and high-risk applications are subjected to special in-depth analysis by the SLD, with an in-house team including attorneys and investigators assisting in those reviews. Invoices sent to the Rural Health Care and Schools and Libraries Divisions are carefully scrutinized and modified as appropriate.

In 2003, SLD convened a Task Force on the Prevention of Waste, Fraud, and Abuse. This Task

Force identified areas where improvements can be made in the support mechanism, outreach and training. USAC identified areas where these changes could be made administratively and has implemented a strategy to have many of these in place prior to the 2004 funding year. The FCC is considering Task Force recommendations that fall within its purview.



**Board Members Joel Lubin and Anne Campbell at the October 2003 Board of Directors Meeting.**

USAC maintains whistleblower hotlines for all operational areas including the support mechanisms that provide a phone number and email address for participants, service providers, and other concerned parties to call attention to circumstances in which universal service funds may have been misapplied or program rules may have been violated. Callers may also identify telecommunication companies that are delinquent in or circumventing their USF obligations. As a result of these efforts, USAC has received valuable tips, some of which have helped to pinpoint abusers of the USF.

USAC's Strategic Planning and Operations Division complements the whistleblower hotline and other program integrity assurance activities of the other USAC divisions by development and deployment of reporting tools, vital in identifying and further researching potential abusers. If such an investigation confirms a program rule violation, USAC takes immediate corrective steps defined by the nature of each support mechanism. These steps include, but are not limited to, adjusting or

**USAC maintains whistleblower hotlines for all operational areas including the support mechanisms that provide a phone number and email address for participants, service providers, and other concerned parties to call attention to circumstances in which universal service funds may have been misapplied or program rules may have been violated.**

rescinding funding commitments or recovering program funds. Where appropriate, USAC may refer matters to the FCC and other law enforcement agencies.

The USAC Board of Directors believes that audits of program beneficiaries are an essential component of internal control. In addition to the many operational improvements intended to ensure program integrity, USAC has an aggressive audit program and is subject to extensive scrutiny by outside auditors and the FCC. Entities that receive Universal Service Support are subject to audits to ensure compliance with the certification requirements set forth in FCC regulations. Such audits test whether the participant is eligible to receive support, whether the rates charged comply with applicable laws and regulations, and whether the services are installed and being used for purposes allowed under the rules. Subsequently, portions of the beneficiary audits have been incorporated into the audits of internal controls and operations. In 2003, USAC spent over \$3.5 million on audits performed by outside audit firms.

In 2003, the Board of Directors created the new position of Vice President of the Internal Audit Division (IAD). The USAC Board elevated this staff position in order to recognize its importance to the corporation and to more fully account for the growing significance of the internal audit function at USAC. In conjunction with creation of this new position, USAC increased its IAD resource capacity by 28%. IAD employs a certified information systems auditor, a certified internal auditor, and two certified public accountants. This expansion has allowed greater oversight over all four support mechanisms, as well as in the billing and collections area.

With the expansion of IAD, USAC has been able to perform rigorous audits of universal service support mechanism operations and their beneficiaries at a lower cost. IAD also directs USAC's efforts in connection with the annual financial statement audit of USAC performed by an outside account-



Board Members James Jackson and Wayne Jortner at a Board of Directors meeting in 2003.

ing firm and with the FCC financial statement audit of the USF.

In 2003, at the request of HCLID, IAD conducted a thorough process review and analysis of High Cost support mechanism operations. USAC determined that it was critical to perform this review prior to the completion of the transition between administrative support contractors. Because of this timing, USAC was able to identify improvements to the process and correct inefficiencies with the start of the new vendor and before migrating the data submission process to an electronic format.

USAC's IAD, in conjunction with the FCC's OIG and KPMG LLP, performed over 100 Schools and Libraries support mechanism beneficiary audits covering over \$377 million in commitments. The results of these audits will be reported in 2004.

The relationship between IAD and the FCC was further strengthened in 2003. IAD, along with the FCC's OIG, and representatives from the Department of Interior Office of the Inspector General, were nominated for the federal Executive Council on Integrity and Efficiency award for its work in providing oversight of the USF. In close partnership, these groups established an innovative way of addressing audit resource limitations while increasing program oversight.

The USF is subject to audits by the FCC and by

independent auditors retained by USAC as required by FCC regulations. In addition, USAC's financial statements are audited annually by an outside accounting firm. In 2003, this firm provided USAC with a clean opinion for its 2002 financial statements. The 2002 audit report is included as Appendix A of this report. The 2003 financial statements are in process and will be included in the 2004 annual report. As discussed below, USAC's IAD also periodically reviews USAC's financial and programmatic operations.

In addition to the efforts of the expanded IAD, each support mechanism is subject to external auditing procedures of its operations, and financial functions each year. Also, a sampling of applicants that received funding is subject to vigorous beneficiary reviews, which usually include site visits and an analysis of virtually every step of the process in requesting and obtaining funds.

In 2003, for example, telephone companies who received High Cost and Low Income support underwent eligibility testing by an outside auditor to determine whether these service providers were qualified to receive support and whether the amounts distributed were appropriate. This outside auditor found that the service providers selected were qualified and no serious issues were identified. This eligibility testing supplements USAC's extensive program integrity assurance procedures that are designed to prevent waste, fraud, and abuse.

The FCC has a critical role in USF program integrity as well. For example, under FCC regulations adopted in 2003, persons who have been convicted of criminal violations or held civilly liable for certain acts arising from their participation in the Schools and Libraries support mechanism are subject to suspension and debarment from the program.

In 2003, the FCC took significant actions against non-payers and other violators of the USF contribution and reporting rules. In September, the FCC

proposed an \$806,861 forfeiture against a long-distance service reseller for violating the FCC's universal service and telecommunications relay service ("TRS") rules. This long-distance service reseller did not make the required payments to the Universal Service Fund, owing nearly \$700,000 in overdue contributions as of August 2003. This is the largest forfeiture the FCC has ever proposed for such violations, and September's order puts carriers on notice that disregarding their universal service and TRS obligations will result in significant penalties.

Moreover, the FCC found that this long-distance reseller had underreported its revenues to the FCC, and at times failed to report revenue information at all. The FCC uses this information to calculate carriers' universal service and TRS obligations. In addition to the proposed forfeiture, the Commission ordered this company to submit a report within 30 days outlining its plans for coming into compliance with the law.

USAC staff provided significant support to the FCC as it prepared this decision. Our finance team's aggressive pursuit of delinquent contributors and referral of non-payers to the FCC pursuant to the DCIA have had a positive impact on the USF in 2003, and strong actions like this from the FCC will only strengthen USAC's efforts as it moves forward. These continuing efforts kept the administrative overhead for the USF at approximately 1% in 2003, thus providing more support to the Americans who need it.

USAC is required to disclose expenses that are reimbursed to Board Members for events other than attendance at USAC Board meetings. One Board Member, Wayne Jortner, USAC Treasurer, was reimbursed a total of \$925.34 in connection with his travel to review finance and investment operations at LaSalle Bank in Chicago, Illinois.

**In 2003, the FCC took significant actions against non-payers and other violators of the USF contribution and reporting rules.**

## PROGRAM PARTICIPANTS

### NORTHWEST TELEPHONE COOPERATIVE ASSOCIATION

The High Cost support mechanism aims to meet the goal of providing consumers in all parts of the country with affordable telephone service, regardless of where they live. The Northwest Telephone Cooperative Association (Northwest) exemplifies the kind of company serving rural customers under this support mechanism. Northwest was formed in 1963 through the consolidation of three local telephone companies serving customers in northwest Iowa since the early 1900s. Much of Northwest Iowa remains a farming community, growing soybeans and grain, as well focusing on cattle and hog production.

Northwest connects over 1,000 residential and 250 business customers over a 246 square mile area and provides not only telephone service but also both dial-up and high-speed Internet access. "If we did not receive Universal Service Funds, our customers' bills would increase and we would have a difficult time providing quality voice service. Without USF, our customers' service and our company's future would be in jeopardy. It would create a have and have not situation in comparison with the metropolitan areas. In addition, we



Adam Nelson and Joel Schmidt, two of Northwest's dedicated employees, inspect one of the digital switches.



Adam removes the snow from around one of Northwest's telephone pedestals prior to performing maintenance.

would have to limit our growth in other areas as well as economic development," states Don Miller, Northwest's General Manager.

In 2003, Northwest began a large rebuild of its telephone exchange areas. Some of the cable was originally put in the ground in 1963, so replacement was necessary. Northwest ran approximately 186 miles of cable, along with fiber nodes in rural areas. This rebuild will allow Northwest to continue to provide services to its rural customers comparable to those found in larger metropolitan areas, as well as offer communication advancement far into the future.

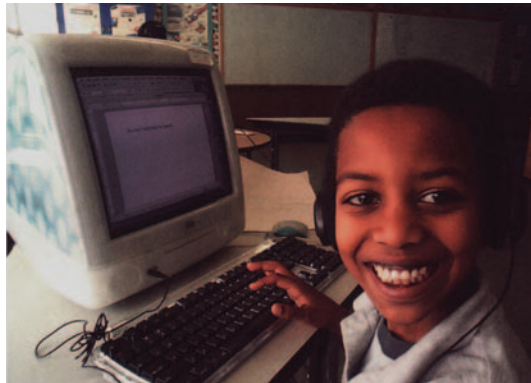
Northwest and its subsidiary companies employ 33 full-time employees and are one of the largest employers in the area. Northwest is more than just a provider of telecommunication services; it is fundamental to its community. Northwest's dedicated employees keep residents and businesses as well as the area's medical clinic and school connected to the rest of the world and help to preserve America's rural areas as vital places to work and live for generations to come.

**"Without USF, our customers' service and our company's future would be in jeopardy. It would create a have and have not situation in comparison with the metropolitan areas." Mr. Don Miller, General Manager, Northwest Telephone Cooperative Association.**

## ST. MARTIN DE PORRES SCHOOL

The St. Martin de Porres School in Oakland, CA is one of the many applicants and beneficiaries of the Universal Service Fund's Schools and Libraries support mechanism. St. Martin de Porres School serves families of the West Oakland neighborhood and beyond by providing a multi-racial, multi-ethnic, and multi-cultural K through 8 educational experience. St. Martin de Porres provides a safe, caring environment in which students develop learning skills to move upward through the educational system and contribute positively as adults in our global society.

Through the E-rate program, St. Martin de Porres is able to offer access to computers and computer-aided instruction throughout the curriculum. When speaking with St. Martin de Porres' principal, Ms. Sue Taylor, one can feel her excitement for technology in the class room:



"The E-rate program has been an incredible blessing for our school allowing our students to use state of the art labs for their education. Thanks to the e-rate and grants for computer hardware and software our school has the same or better technology than affluent schools. I am finding that every year technology is being more and more integrated into the curriculum."

These students use the Internet as readily as past generations used textbooks and encyclopedias. They use it to find and select information and

graphics for their reports, multimedia presentations, and desktop publishing, as well as for reviewing math and language arts concepts.



St. Martin de Porres' student body is a diverse group ethnically and is a composite from an area of Oakland where the crime rate and poverty drive children away from school. Technology and the efforts of people like Ms. Taylor and all her committed and passionate teachers are the glue that binds these children to the classroom and places them on the road to success and provides an opportunity to accomplish all their dreams.

"Since we serve the poor it would have been impossible for our school to acquire expensive network wiring and Internet service if it had not been for the E-rate program. It also helps with our telephone communications with the community," said Principal Taylor.



**"Since we serve the poor it would have been impossible for our school to acquire expensive network wiring and Internet service if it had not been for the E-rate program. It also helps with our telephone communications with the community." Ms. Sue Taylor, Principal, St. Martin de Porress School (Pictures of St. Martins de Porres students and teachers provided by Principal Taylor)**

Deloitte & Touche LLP  
Two World Financial Center  
New York, New York 10281-1414

Tel: (212) 436-2000  
Fax: (212) 436-5000  
www.us.deloitte.com

**Deloitte  
& Touche**

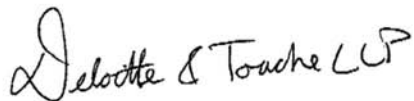
### INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the  
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, 2002, and the related statements of operations and change in unrestricted net assets and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of December 31, 2001 and for the year then ended were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated April 29, 2002.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Universal Service Administrative Company as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.



February 28, 2003

**Deloitte  
Touche  
Tohmatsu**

**Universal Service Administrative Company**  
**Statements of Financial Position**  
**December 31, 2002 and 2001 (in thousands)**

ASSETS	2002	2001
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 514	\$ 2,595
Receivable from Federal Universal Service Fund ("USF") (Note 2)	2,480	2,304
Interest receivable	7	6
Prepaid expenses and other current assets	589	1,352
	3,590	6,257
Restricted Net Assets (Note 3):		
Net assets applicable to Federal USF	2,491,058	2,572,476
Total current assets	\$ 2,494,648	\$ 2,578,733
Fixed Assets, less accumulated depreciation and amortization of \$762 and \$2,036, respectively (Note 2):	584	1,047
Total assets	\$ 2,495,232	\$ 2,579,780
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses (Note 2)	\$ 4,174	\$ 7,304
Restricted Net Liabilities (Note 3)		
Net funds held for Federal USF	2,491,058	2,572,476
Total current liabilities	2,495,232	2,579,780
Commitments and Contingencies (Note 6)		
Unrestricted Net Assets	-	-
Total liabilities and unrestricted net assets	\$ 2,495,232	\$ 2,579,780

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



**Universal Service Administrative Company**  
**Statements of Operations and Change in Unrestricted Net Assets**  
**December 31, 2002 and 2001 (in thousands)**

	<u>2002</u>	<u>2001</u>
Revenue:		
Contract revenue	\$ 46,192	\$ 39,284
Operating Expenses:		
Contractual expenses (Notes 1 and 6)	36,438	30,275
Personnel and related expenses	5,502	3,851
General and administrative	3,402	4,292
Depreciation and amortization	850	866
Total operating expenses	46,192	39,284
Net income	-	-
Unrestricted net assets, beginning of year	-	-
Unrestricted net assets, end of year	\$ -	\$ -

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

**Universal Service Administrative Company**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2002 and 2001 (in thousands)**

	<u>2002</u>	<u>2001</u>
Cash Flows from Operating Activities:		
Cash received from contributors	\$ 5,174,622	\$ 5,238,714
Interest received	44,811	95,934
Cash paid to service providers	(5,195,897)	(4,623,594)
Cash paid for administrative costs	(47,709)	(37,271)
Less: Net cash used for (provided by) Federal USF	<u>22,479</u>	<u>(672,148)</u>
Net cash (used for) provided by operating activities	<u>(1,694)</u>	<u>1,635</u>
Cash Flows from Investing Activities:		
Redemption of short-term investments	588,342	2,025,627
Purchase of short-term investments	(431,761)	(1,495,113)
Cash paid for fixed assets	(387)	(105)
Less: Net cash (provided by) Federal USF	<u>(156,581)</u>	<u>(530,514)</u>
Net cash used for investing activities	<u>(387)</u>	<u>(105)</u>
(Decrease) increase in cash and cash equivalents	(2,081)	1,530
Cash and cash equivalents, beginning of year	<u>2,595</u>	<u>1,065</u>
Cash and cash equivalents, end of year	<u>\$ 514</u>	<u>\$ 2,595</u>
Reconciliation of Net Cash from Operating Activities		
Net income	\$ -	\$ -
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Depreciation and amortization	850	866
Changes in operating assets and liabilities:		
(Increase) decrease in interest receivable	(1)	13
Decrease (increase) in prepaid expenses and other current assets	763	(929)
Decrease (increase) in restricted net assets applicable to Federal USF	81,418	(745,635)
(Increase) in receivable from Federal USF	(176)	(391)
(Decrease) increase in accounts payable and accrued expenses	(3,130)	2,076
(Decrease) increase in restricted net funds held for Federal USF	<u>(81,418)</u>	<u>745,635</u>
Net cash (used for) provided by operating activities	<u>\$ (1,694)</u>	<u>\$ 1,635</u>

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

# Universal Service Administrative Company

## Notes to Financial Statements

### December 31, 2002 and 2001 (in thousands)

#### 1. ORGANIZATION AND BASIS OF PRESENTATION

The Universal Service Administrative Company ("USAC" or the "Company") was incorporated, effective September 17, 1997, as a not for profit independent wholly-owned subsidiary of the National Exchange Carrier Association, Inc. ("NECA"), and appointed by the Federal Communications Commission ("FCC") to administer the Federal Universal Service Fund ("USF") and has no ownership or control over the USF. USAC's Board of Directors consists of independent directors representing a cross-section of stakeholders in the Federal USF.

The FCC, in its Report and Order in CC Docket Nos. 96-45 and 97-21 ("Universal Service Order") released May 8, 1997 and November 20, 1998, respectively, determined that USAC should serve as the permanent administrator of the high cost, low income, rural health care, and schools and libraries universal service support mechanisms, collectively referred to herein as the "Support Mechanisms," established pursuant to Section 254 of the Communications Act of 1934, as amended.

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

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

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

NECA performs certain administrative services for USAC under contract whereby NECA is compensated by USAC in accordance with NECA's Cost Accounting and Procedures Manual. Effective July 1, 2002, NECA entered into a fixed

price contract with USAC for services performed for the Schools and Libraries and Rural Health Care Support Mechanisms. For the years ended December 31, 2002 and 2001, the expense recognized for services rendered by NECA were \$32,909 and \$28,526, respectively, and is included in contractual expenses in the accompanying statements of operations. At December 31, 2002 and 2001, the amounts due to NECA related to these services were \$3,006 and \$6,115, respectively.

#### 2. ACCOUNTING POLICIES

##### Use of Estimates

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

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

##### Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, cash equivalents, short-term investments and receivables from contributors. The Company places its cash, cash equivalents and short-term investments with high-credit, quality institutions and limits the amount of credit exposure to any one institution. The Company's accounts receivable arise from amounts billed to contributors but unpaid. The Company performs ongoing evaluations of the recoverability of the receivables and provides allowances for amounts that may be uncollectible.

##### Cash and Cash Equivalents

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

##### Short-Term Investments

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

## Universal Service Administrative Company

### Notes to Financial Statements

#### December 31, 2002 and 2001 (in thousands)

ments consist primarily of investment grade marketable debt securities with readily determinable fair values all of which are classified as held-to-maturity. The Company accounts for its investments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. Under SFAS No. 124, a not for profit organization reports investments in debt and equity securities at fair market value.

#### Fixed Assets

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

#### Impairment of Long-Lived Assets

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

#### Receivable from USF

Receivable from USF presented on the USAC statements of financial position as of December 31, 2002 and 2001 consists of amounts owed USAC from the USF for accounts payable and accrued expenses incurred by USAC net of assets available to satisfy those obligations.

#### Contract Revenue

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

#### Amounts Billed to Contributors

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

#### Payable to Service Providers

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

#### Payable to Contributors

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

#### Amounts Paid and Due to Service Providers

Amounts paid and due to service providers are presented as a gross amount. However, during 2002 and 2001, service providers receiving support from Schools and Libraries Support Mechanism had the option to net their support due from Schools and Libraries Support Mechanism against their payments relating to all four of the Support Mechanisms comprising USF. It is mandatory that providers receiving support from the Rural Health Care Support Mechanism net their support due against their payments to USF. There is no provision that enables providers to net their support due from High Cost and Low Income Support Mechanisms against their contributions to USF.

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

#### Statements of Cash Flows

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

### 3. RESTRICTED NET ASSETS AND NET LIABILITIES

In connection with USAC's administration of the Support Mechanisms (Note 1), USAC collects monies and makes disbursements between various telecommunications providers, as specified by the FCC. The following summary statements of net assets applicable to Federal USF, summary statements of activities and summary statements of cash flows are provided for additional information.

**Universal Service Administrative Company**  
**Notes to Financial Statements**  
**December 31, 2002 and 2001 (in thousands)**

SUMMARY STATEMENT OF NET ASSETS APPLICABLE TO FEDERAL USF	2002				
	High Cost	Low Income	Schools & Libraries	Rural Health Care	Total USF
<b>Assets</b>					
Restricted cash and cash equivalents	\$ 101,212	\$ 47,713	\$1,923,830	\$ 12,876	\$ 2,085,631
Short-term investments (Note 2)	-	-	275,141	-	275,141
Receivable from contributors	331,632	74,798	230,191	3,636	640,257
Allowance for doubtful accounts (Note 2)	(59,436)	(15,184)	(46,961)	(1,476)	(123,057)
Interest receivable	86	53	3,489	16	3,644
<b>Total assets</b>	<b>373,494</b>	<b>107,380</b>	<b>2,385,690</b>	<b>15,052</b>	<b>2,881,616</b>
<b>Liabilities</b>					
Payable to service providers	278,320	52,602	20,446	-	351,368
Payable to contributors	19,468	4,250	12,773	219	36,710
Payable to USAC	(146)	(127)	2,692	61	2,480
<b>Total liabilities</b>	<b>297,642</b>	<b>56,725</b>	<b>35,911</b>	<b>280</b>	<b>390,558</b>
<b>Net assets applicable to Federal USF</b>	<b>\$ 75,852</b>	<b>\$ 50,655</b>	<b>\$2,349,779</b>	<b>\$ 14,772</b>	<b>\$ 2,491,058</b>

SUMMARY STATEMENT OF ACTIVITIES	2002				
	High Cost	Low Income	Schools & Libraries	Rural Health Care	Total USF
<b>Additions</b>					
Amounts billed to contributors	\$2,548,280	\$ 627,475	\$2,065,543	\$ 27,386	\$ 5,268,684
Interest income	511	666	40,131	262	41,570
<b>Total additions</b>	<b>2,548,791</b>	<b>628,141</b>	<b>2,105,674</b>	<b>27,648</b>	<b>5,310,254</b>
<b>Deductions</b>					
Amounts paid and due to service providers	2,976,294	675,912	1,660,196	16,850	5,329,252
Allowance for doubtful accounts	6,336	2,884	6,061	947	16,228
Operating expenses	6,852	1,870	34,387	3,083	46,192
<b>Total deductions</b>	<b>2,989,482</b>	<b>680,666</b>	<b>1,700,644</b>	<b>20,080</b>	<b>5,391,672</b>
Interprogram Transfer (Note 5)	388,466	57,093	(445,550)	(9)	-
<b>Change in net assets</b>	<b>(52,225)</b>	<b>4,568</b>	<b>(40,520)</b>	<b>6,759</b>	<b>(81,148)</b>
<b>Net assets, beginning of year</b>	<b>128,077</b>	<b>46,087</b>	<b>2,390,299</b>	<b>8,103</b>	<b>2,572,476</b>
<b>Net assets, end of year</b>	<b>\$ 75,852</b>	<b>\$ 50,655</b>	<b>\$2,349,779</b>	<b>\$ 14,772</b>	<b>\$2,491,058</b>

**Universal Service Administrative Company**  
**Notes to Financial Statements**  
**December 31, 2002 and 2001 (in thousands)**

SUMMARY STATEMENT OF NET ASSETS APPLICABLE TO FEDERAL USF	2001				
	High Cost	Low Income	Schools & Libraries	Rural Health Care	Total USF
<b>Assets</b>					
Restricted cash and cash equivalents	\$ 104,825	\$ 53,772	\$1,785,425	\$ 7,507	\$ 1,951,529
Short-term investments (Note 2)	-	-	431,723	-	431,723
Receivable from contributors	304,889	53,474	238,284	1,241	597,888
Allowance for doubtful accounts (Note 2)	(53,100)	(12,300)	(40,900)	(530)	(106,830)
Interest receivable	659	739	4,637	24	6,059
Total assets	357,273	95,685	2,419,169	8,242	2,880,369
<b>Liabilities</b>					
Payable to service providers	225,221	49,063	22,071	-	296,355
Payable to contributors	4,766	822	3,622	24	9,234
Payable to USAC	(791)	(287)	3,177	205	2,304
Total liabilities	229,196	49,598	28,870	229	307,893
Net assets applicable to Federal USF	\$ 128,077	\$ 46,087	\$2,390,299	\$ 8,013	\$ 2,572,476
<b>SUMMARY STATEMENT OF ACTIVITIES</b>					
	2001				
	High Cost	Low Income	Schools & Libraries	Rural Health Care	Total USF
<b>Additions</b>					
Amounts billed to contributors	\$2,727,169	\$573,329	\$2,126,245	\$ 10,483	\$ 5,437,226
Interest income	4,044	4,858	63,197	430	72,529
Total additions	2,731,213	578,187	2,189,442	10,913	5,509,755
<b>Deductions</b>					
Amounts paid and due to service providers	2,600,596	577,594	1,465,372	8,428	4,651,990
Allowance for doubtful accounts	36,559	7,918	28,120	249	72,846
Operating expenses	5,151	1,394	30,150	2,589	39,284
Total deductions	2,642,306	586,906	1,523,642	11,266	4,764,120
Change in net assets	88,907	(8,719)	665,800	(353)	745,635
Net assets, beginning of year	39,170	54,806	1,724,499	8,366	1,826,841
Net assets, end of year	\$ 128,077	\$ 46,087	\$2,390,299	\$ 8,013	\$2,572,476

Universal Service Administrative Company  
Notes to Financial Statements  
December 31, 2002 and 2001 (in thousands)

SUMMARY STATEMENT OF CASH FLOWS	2002				
	High Cost	Low Income	Schools & Libraries	Rural Health Care	Total USF
Cash Flows from Operating Activities					
Cash received from contributors	\$2,499,739	\$ 600,202	\$2,049,909	\$ 24,772	\$ 5,174,622
Cash paid to service providers	(2,887,085)	(663,090)	(1,629,281)	(16,441)	(5,195,897)
Cash paid to USAC for administrative expenses	(6,185)	(1,703)	(34,776)	(3,220)	(45,884)
Interest received	1,452	1,439	41,522	267	44,680
Intraprogram transfers (Note 5)	388,466	57,093	(445,550)	(9)	-
Net cash provided by (used for) operating activities	<u>(3,613)</u>	<u>(6,059)</u>	<u>(18,176)</u>	<u>5,369</u>	<u>(22,479)</u>
Cash Flows from Investing Activities					
Redemption of short-term investments	-	-	588,342	-	588,342
Purchase of short-term investments	-	-	(431,761)	-	(431,761)
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>156,581</u>	<u>-</u>	<u>156,581</u>
Cash Flows from Financing Activities					
Increase (decrease) in cash and cash equivalents	<u>(3,613)</u>	<u>(6,059)</u>	<u>138,405</u>	<u>5,369</u>	<u>134,102</u>
Cash and Cash Equivalents, beginning of year	<u>104,825</u>	<u>53,772</u>	<u>1,785,425</u>	<u>7,507</u>	<u>1,951,529</u>
Cash and Cash Equivalents, end of year	<u>\$ 101,212</u>	<u>\$ 47,713</u>	<u>\$1,923,830</u>	<u>\$ 12,876</u>	<u>\$2,085,631</u>

Universal Service Administrative Company  
Notes to Financial Statements  
December 31, 2002 and 2001 (in thousands)

SUMMARY STATEMENT OF CASH FLOWS	2001				
	High Cost	Low Income	Schools & Libraries	Rural Health Care	Total USF
Cash Flows from Operating Activities					
Cash received from contributors	\$2,662,934	\$ 575,891	\$1,989,194	\$ 10,695	\$ 5,238,714
Cash paid to service providers	(2,605,066)	(576,526)	(1,433,266)	(8,736)	(4,623,594)
Cash paid to USAC for administrative expenses	(5,622)	(1,778)	(28,827)	(2,396)	(38,623)
Interest received	3,419	4,150	87,686	396	95,651
Intraprogram transfers (Note 5)	-	-	-	-	-
Net cash provided by (used for) operating activities	<u>55,665</u>	<u>1,737</u>	<u>614,787</u>	<u>(41)</u>	<u>672,148</u>
Cash Flows from Investing Activities					
Redemption of short-term investments	-	-	2,025,627	-	2,025,627
Purchase of short-term investments	-	-	(1,495,113)	-	(1,495,113)
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>530,514</u>	<u>-</u>	<u>530,514</u>
Cash Flows from Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	55,665	1,737	1,145,301	(41)	1,202,662
Cash and Cash Equivalents, beginning of year	<u>49,160</u>	<u>52,035</u>	<u>640,124</u>	<u>7,548</u>	<u>748,867</u>
Cash and Cash Equivalents, end of year	<u>\$ 104,825</u>	<u>\$ 53,772</u>	<u>\$1,785,425</u>	<u>\$ 7,507</u>	<u>\$1,951,529</u>



# Universal Service Administrative Company

## Notes to Financial Statements

### December 31, 2002 and 2001 (in thousands)

#### 4. INCOME TAXES

USAC is a not-for-profit organization subject to income taxes related to permanent and temporary differences such as meals and entertainment expense and financial accounting versus tax depreciation. Income taxes for the 2002 and 2001 period are not material and are included as a component of administrative costs.

#### 5. INTERPROGRAM TRANSFERS

On June 13, 2002, the FCC released Docket No. 02-6, directing USAC to apply unused Schools and Libraries Support Mechanism funds to stabilize the USF contribution factor. Based upon projected demand and projected contributions, USAC transferred unused Schools and Libraries Support Mechanism funds to the other Support Mechanisms.

#### 6. COMMITMENTS AND CONTINGENCIES

##### Commitments to Schools, Libraries and Rural Health Care Facilities

The management of USAC has developed operational procedures to administer the application process through which eligible schools and libraries and rural health care providers apply for universal service funding. These operational procedures enable USAC to review and process applications resulting in funding commitment letters that are issued to eligible schools and libraries and rural health care providers. Funding commitments made to eligible schools and libraries and rural health care providers are not fixed and are not binding for either USAC or the schools and libraries and rural health care providers 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. USAC also receives funds returned by service providers and applies those funds to reduce the disbursements against commitments to schools, libraries, and rural health care providers.

##### Fixed Contract Commitments

##### IBM Agreement

On May 10, 2001, USAC entered into an agreement with PricewaterhouseCoopers, LLP ("PwC Agreement") for billing, collection and disbursement services for USAC. The PwC Agreement was a five-year contract, for the period July 1,

2001 to June 30, 2006. On October 1, 2002, IBM Consulting ("IBM") purchased PricewaterhouseCoopers Consulting, resulting in an assignment of USAC's contract to IBM ("IBM Agreement"). In January 2003, the FCC directed USAC to terminate the IBM Agreement. USAC's board of directors approved a course of action to negotiate a termination of the IBM Agreement and develop a plan to perform the billing, collection and disbursements in house. The impact of the decision to terminate the contract has not yet been determined.

The following amounts represent the full contractual obligations due per year under the IBM Agreement in effect at December 31, 2002:

2003	\$4,295
2004	4,478
2005	4,642
2006	2,352

##### LaSalle Bank Agreement

On May 1, 2001, USAC entered into an agreement with LaSalle Bank ("LaSalle Agreement"). The LaSalle Agreement is a five-year contract, which runs from July 1, 2001 to June 30, 2006. Under the terms of the LaSalle Agreement, LaSalle provides banking and investment management services for a fixed annual contractual amount that may be satisfied by fees derived by LaSalle from the investment of a portion of the custodial assets. LaSalle has also agreed to share with USAC the fees it earns for managing the investments after the annual fee has been satisfied. In accordance with the LaSalle Agreement, USAC earned \$2,088 and \$984 for the years ended December 31, 2002 and 2001, respectively which is reflected as a reduction in operating expenses in the accompanying financial statements. The fees earned are dependent on the amounts invested and will vary over the term of the contract.

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

2003	\$ 950
2004	974
2005	1,027
2006	528

## Universal Service Administrative Company Notes to Financial Statements December 31, 2002 and 2001 (in thousands)

### NECA Agreement

On May 1, 2000, USAC entered into an agreement with NECA ("NECA Agreement"). The NECA Agreement was a three year contract, which runs from July 1, 2000 to June 30, 2003. Effective July 1, 2002, the NECA Agreement was amended and extended to June 30, 2005 with renewal options through June 30, 2008. Under the terms of the new agreement, NECA is to provide programmatic support service to the Schools and Libraries and Rural Health Care Support Mechanisms. The future contractual required payments per year through June 30, 2005 under the new NECA Agreement are as follows:

	Schools and Libraries	Rural Health Care
2003	\$28,065	\$1,991
2004	26,301	2,210
2005	13,277	1,169

### Lease Commitments

USAC leases its office space under three operating lease agreements expiring at various dates through March 2004. At December 31, 2002, the future minimal rental payments under these leases are as follows:

2003	\$596
2004	67

Rent expense under operating leases was \$330 and \$288 for the years ended December 31, 2002 and 2001, respectively.

### Legal Disputes

The Company is involved in various legal proceedings and claims incidental to the normal conduct of its business. Among other matters, the Company was named as a third-party defendant in a judicial proceeding in the Commonwealth of Puerto Rico asserting the claim that a Schools and Libraries Universal Service Support Mechanism funding commitment was a binding contract breached by the Company. The third-party plaintiff, who failed to exhaust its administrative remedies as required by law, seeks

\$70 million in unspecified damages. Although it is impossible to predict the outcome of this or any of the other outstanding legal proceedings involving the Company, the Company believes that such outstanding legal proceedings and claims, individually and in the aggregate, are not likely to have a material effect on its financial position or results of operations.

### 7. RETIREMENT PLANS

USAC has a 401(k) Retirement Savings Plan covering all USAC regular employees. The plan is both contributory and noncontributory and all contributions are subject to certain limitations as prescribed by the plan document and government regulations. Employees are immediately vested in the employer contribution, which is funded on a current basis. Employer contributions charged to operations was \$439 and \$298 during 2002 and 2001, respectively.

### 8. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June and August 2001, the Financial Accounting Standards Board, or FASB, issued SFAS No. 143, "Accounting for Asset Retirement Obligations" and No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," respectively. SFAS No. 143, which is effective for the Company on January 1, 2003, requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company does not expect that the adoption of SFAS No. 143 will have a material impact on its financial position, operations or cash flows. SFAS No. 144, which was effective for the Company on January 1, 2002, supersedes current accounting literature and now provides for a single accounting model for long lived assets to be disposed of by sale and discontinued operations presentation. The adoption of this statement did not have a material effect on the Company's financial statements.

## DETAILED CHARTS

**Support by Service Provider Type, 2003 (In thousands)**

SERVICE PROVIDER TYPE	HIGH COST	LOW INCOME	RURAL HEALTH CARE	SCHOOLS AND LIBRARIES	TOTAL 2003
Competitive Access Provider	\$ 5,647	\$ 5,343	\$ 46	\$ 72,049	\$ 83,085
Cellular/PCS Providers	126,234	19,431	---	29,614	175,279
Interexchange Providers	---	---	2,079	72,257	74,336
Internet Service Providers	---	---	---	77,868	77,868
Local Exchange Carriers	3,141,344	688,356	434	542,626	4,372,760
Local Resellers	---	---	---	15,634	15,634
Non-Traditional Providers	---	---	---	727,182	727,182
Operator Service Providers	---	---	---	29	29
Other Local	---	---	---	24,270	24,270
Other Mobile	---	---	---	623	623
Other Toll	---	---	8	1,295	1,303
Paging and Messaging	---	---	---	1,190	1,190
Payphone Service Providers	---	---	---	2	2
Pre-Paid Card Providers	---	---	---	114	114
Private Service Providers	---	---	1	15,419	15,420
Satellite Service Providers	---	---	---	264	264
Shared Tenant Service Providers	---	---	---	1,893	1,893
Specialized Mobile Service Providers	---	---	---	2,789	2,789
Toll Resellers	---	---	---	26,901	26,901
Wireless Data Providers	---	---	---	4,262	4,262
Not Specified	---	---	---	27,816	27,816
<b>Total</b>	<b>\$ 3,273,225</b>	<b>\$ 713,129</b>	<b>\$ 2,567</b>	<b>\$ 1,644,099</b>	<b>\$ 5,633,020</b>

## High Cost Support by State, 2003 (Disbursements In thousands)

STATE	TOTAL RURAL	TOTAL NON-RURAL	2003 SUPPORT	TOTAL 1998 - 2003
Alabama	\$ 40,318	\$ 51,960	\$ 92,278	\$ 450,699
Alaska	84,052	1,656	85,708	445,044
American Samoa	860	1,151	2,012	4,078
Arizona	54,645	14,767	69,412	287,089
Arkansas	106,076	7,904	113,980	508,271
California	60,916	30,008	90,924	427,682
Colorado	57,551	17,318	74,869	344,175
Connecticut	1,480	765	2,245	8,042
Delaware	0	3,489	3,489	4,449
District of Columbia	0	0	0	0
Florida	35,284	44,179	79,463	342,693
Georgia	103,410	12,762	116,172	542,011
Guam	4,011	0	4,011	16,089
Hawaii	9,104	2,159	11,263	28,710
Idaho	53,286	0	53,286	240,075
Illinois	41,466	10,629	52,095	232,610
Indiana	32,061	21,389	53,450	206,196
Iowa	67,898	4,492	72,390	233,078
Kansas	107,315	1,155	108,470	477,527
Kentucky	40,116	20,148	60,264	227,562
Louisiana	80,111	10,084	90,195	462,429
Maine	26,013	6,026	32,039	161,452
Maryland	1,999	1,677	3,675	16,231
Massachusetts	1,540	172	1,712	41,506
Michigan	45,782	203	45,985	238,555
Minnesota	78,213	1,920	80,133	325,324
Mississippi	32,827	137,834	170,660	670,572
Missouri	83,705	7,441	91,145	417,560
Montana	56,052	11,354	67,407	313,958
Nebraska	40,064	3,707	43,770	167,098
Nevada	24,826	6,552	31,378	114,411
New Hampshire	8,902	3,523	12,425	58,302
New Jersey	1,342	0	1,342	19,255
New Mexico	45,244	3,986	49,231	243,306
New York	43,767	9,367	53,134	297,268
North Carolina	40,440	31,333	71,773	271,132
North Dakota	52,714	2,388	55,103	184,255
Northern Mariana Islands	1,627	0	1,627	23,338
Ohio	26,731	12,291	39,022	151,345
Oklahoma	97,613	6,337	103,950	453,546
Oregon	52,604	19,510	72,114	318,445
Pennsylvania	52,713	3,289	56,002	210,295
Puerto Rico	3,332	97,827	101,159	729,032
Rhode Island	0	46	46	226
South Carolina	72,282	11,661	83,944	344,686
South Dakota	46,109	1,800	47,909	163,732
Tennessee	46,727	7,213	53,939	233,687
Texas	176,904	29,718	206,622	941,555
Utah	22,577	1,272	23,849	90,544
Vermont	16,292	11,792	28,084	126,117
Virgin Islands	30,176	0	30,176	152,394
Virginia	22,689	54,613	77,303	275,118
Washington	61,469	20,332	81,800	376,822
West Virginia	38,185	41,984	80,169	343,785
Wisconsin	90,081	1,682	91,763	375,752
Wyoming	30,442	16,414	46,856	201,929
TOTAL	\$ 2,451,941	\$ 821,284	\$ 3,273,225	\$ 14,541,041

## High Cost Support by Component, 2003 (Disbursements in thousands)

STATE	HIGH COST LOOP	INTERSTATE ACCESS	LONG TERM	LOCAL SWITCHING	ICLS	TOTAL 2003 SUPPORT
Alabama	\$ 60,442	\$ 11,300	\$ 7,571	\$ 7,207	\$ 5,757	\$ 92,278
Alaska	43,021	-	18,052	12,466	12,168	85,708
American Samoa	*(2)	1,151	275	497	91	2,012
Arizona	30,528	19,690	3,453	9,899	5,842	69,412
Arkansas	61,186	8,015	14,134	7,256	23,389	113,980
California	33,316	32,220	12,636	6,568	6,185	90,924
Colorado	34,691	17,424	13,237	4,915	4,602	74,869
Connecticut	0	765	173	932	374	2,245
Delaware	0	3,489	0	0	0	3,489
District of Columbia	0	0	0	0	0	0
Florida	11,951	52,345	5,075	4,680	5,412	79,463
Georgia	53,415	13,037	18,707	15,156	15,857	116,172
Guam	1,438	0	2,573	0	0	4,011
Hawaii	3,025	2,159	84	1,423	4,571	11,263
Idaho	20,827	15,481	3,643	8,841	4,494	53,286
Illinois	12,687	12,664	6,431	12,309	8,003	52,095
Indiana	8,162	25,113	5,432	8,767	5,977	53,450
Iowa	15,322	6,716	10,026	22,507	17,819	72,390
Kansas	60,168	5,139	12,294	13,375	17,494	108,470
Kentucky	23,285	17,609	4,996	5,593	8,780	60,264
Louisiana	50,930	10,084	16,890	5,903	6,389	90,195
Maine	12,494	156	6,301	8,508	4,580	32,039
Maryland	479	1,677	97	763	659	3,675
Massachusetts	156	172	108	984	292	1,712
Michigan	22,907	357	10,373	8,283	4,066	45,985
Minnesota	27,713	5,313	13,211	16,384	17,512	80,133
Mississippi	140,365	17,220	5,332	3,613	4,131	170,660
Missouri	42,494	15,419	10,386	6,586	16,261	91,145
Montana	38,491	969	10,630	8,961	8,356	67,407
Nebraska	14,040	5,572	4,044	11,289	8,826	43,770
Nevada	8,452	11,047	1,048	8,226	2,606	31,378
New Hampshire	868	3,523	1,562	5,091	1,382	12,425
New Jersey	-	375	-	967	0	1,342
New Mexico	19,660	9,232	6,806	8,711	4,822	49,231
New York	9,845	16,929	6,402	16,720	3,239	53,134
North Carolina	11,975	33,846	12,180	6,079	7,693	71,773
North Dakota	18,556	761	8,093	14,929	12,764	55,103
Northern Mariana Islands	808	273	-	546	0	1,627
Ohio	9,874	15,200	5,468	4,762	3,719	39,022
Oklahoma	52,783	6,331	16,497	16,295	12,045	103,950
Oregon	26,123	21,785	9,808	8,517	5,882	72,114
Pennsylvania	1,703	18,902	14,653	6,364	14,380	56,002
Puerto Rico	3,332	0	96,297	0	1,530	101,159
Rhode Island	-	46	-	0	0	46
South Carolina	28,559	14,701	11,457	9,219	20,007	83,944
South Dakota	17,872	172	6,417	11,884	11,564	47,909
Tennessee	18,016	8,773	10,695	8,690	7,764	53,939
Texas	100,480	41,354	28,928	19,928	15,932	206,622
Utah	8,865	2,327	1,581	5,406	5,670	23,849
Vermont	14,913	2,146	2,538	4,605	3,882	28,084
Virgin Islands	14,371	0	7,657	0	8,148	30,176
Virginia	4,527	59,526	3,490	6,432	3,328	77,303
Washington	28,334	25,561	15,565	7,548	4,792	81,800
West Virginia	53,483	19,580	1,128	4,794	1,184	80,169
Wisconsin	25,611	256	14,342	25,501	26,052	91,763
Wyoming	25,282	7,840	5,312	5,276	3,146	46,856
TOTAL	\$ 1,327,821	\$ 621,741	\$ 504,089	\$ 420,154	\$ 399,420	\$ 3,273,225

\* Represents prior period adjustments.

## Low Income Support by Component, 2003 (Disbursements in thousands)

STATE	LIFELINE	LINK-UP	TOLL LIMITATION	2003 SUPPORT	TOTAL 1998-2003
Alabama	\$ 2,983	\$ 19	\$ 12	\$ 3,014	\$ 13,010
Alaska	2,999	93	71	3,163	8,286
American Samoa	60	1	0	61	258
Arizona	16,533	267	248	17,048	38,528
Arkansas	1,578	102	24	1,704	5,742
California	281,868	18,441	2,579	302,889	1,754,152
Colorado	3,749	13	28	3,790	16,111
Connecticut	5,561	143	4	5,709	29,701
Delaware	296	18	0	313	733
District of Columbia	1,054	5	0	1,059	5,922
Florida	16,281	326	56	16,664	79,741
Georgia	7,769	134	125	8,028	41,372
Guam	371	22	7	400	1,260
Hawaii	989	45	0	1,034	6,788
Idaho	3,355	18	30	3,404	12,696
Illinois	8,769	678	89	9,536	35,333
Indiana	4,206	314	1	4,522	15,430
Iowa	3,772	56	45	3,872	7,961
Kansas	1,548	82	2	1,632	6,181
Kentucky	6,244	224	143	6,611	23,002
Louisiana	2,064	38	4	2,105	7,648
Maine	9,646	551	21	10,219	47,903
Maryland	428	22	0	451	2,315
Massachusetts	17,547	13	0	17,560	93,920
Michigan	11,200	257	5	11,462	67,937
Minnesota	4,412	19	17	4,448	22,933
Mississippi	2,749	27	5	2,780	10,690
Missouri	3,440	190	17	3,647	12,604
Montana	1,929	27	32	1,988	7,603
Nebraska	1,722	32	48	1,803	7,653
Nevada	4,050	121	19	4,190	12,275
New Hampshire	687	2	0	690	2,873
New Jersey	9,664	52	1	9,717	20,566
New Mexico	6,537	35	117	6,690	24,822
New York	52,451	1,150	15	53,616	314,166
North Carolina	12,873	98	48	13,019	44,033
North Dakota	2,343	94	17	2,455	8,786
Northern Mariana Islands	54	7	0	61	237
Ohio	28,653	707	94	29,454	104,200
Oklahoma	15,138	597	95	15,830	36,675
Oregon	4,817	91	25	4,933	19,922
Pennsylvania	11,488	1,040	0	12,528	38,127
Puerto Rico	10,210	201	0	10,411	21,081
Rhode Island	5,173	5	0	5,178	26,457
South Carolina	2,682	48	29	2,759	12,574
South Dakota	3,651	211	42	3,904	11,984
Tennessee	5,840	80	40	5,961	23,598
Texas	48,281	1,757	105	50,144	193,704
Utah	2,439	11	32	2,481	11,762
Vermont	3,264	24	5	3,293	16,814
Virgin Islands	0	0	0	0	140
Virginia	2,140	45	1	2,186	12,426
Washington	12,963	1,164	118	14,245	50,325
West Virginia	526	16	5	548	2,561
Wisconsin	6,971	608	3	7,582	33,201
Wyoming	339	2	3	343	1,143
TOTAL	\$ 678,357	\$ 30,342	\$ 4,430	\$ 713,129	\$ 3,427,868

## Rural Health Care Support by State, 2003 (Commitments in thousands)

STATE	2003 SUPPORT	TOTAL 1998-2003
Alabama	\$ 13	\$ 62
Alaska	1,814	40,507
American Samoa	0	0
Arizona	64	2,757
Arkansas	13	414
California	0	787
Colorado	0	519
Connecticut	0	0
Delaware	0	0
District of Columbia	0	0
Florida	0	430
Georgia	21	71
Guam	0	0
Hawaii	0	866
Idaho	0	280
Illinois	36	491
Indiana	0	6
Iowa	0	499
Kansas	6	875
Kentucky	77	994
Louisiana	0	25
Maine	60	123
Maryland	0	0
Massachusetts	0	0
Michigan	33	1,807
Minnesota	22	2,624
Mississippi	13	229
Missouri	0	247
Montana	109	1,831
Nebraska	45	1,857
Nevada	0	210
New Hampshire	0	56
New Jersey	0	0
New Mexico	0	816
New York	0	159
North Carolina	0	602
North Dakota	29	1,626
Northern Mariana Islands	0	0
Ohio	0	146
Oklahoma	0	225
Oregon	0	195
Pennsylvania	0	67
Puerto Rico	0	0
Rhode Island	0	0
South Carolina	0	74
South Dakota	0	927
Tennessee	11	140
Texas	0	288
Utah	0	513
Vermont	0	5
Virgin Islands	0	260
Virginia	0	374
Washington	12	289
West Virginia	13	151
Wisconsin	151	651
Wyoming	24	332
TOTAL	\$ 2,567	\$ 66,406

## Schools and Libraries Support by State, 2003 (Commitments In thousands)

STATE	2003 SUPPORT	TOTAL 1998-2003
Alabama	29,209	124,720
Alaska	14,812	64,909
American Samoa	2,209	11,700
Arizona	31,931	227,034
Arkansas	21,067	91,326
California	242,036	1,531,102
Colorado	11,110	79,177
Connecticut	24,657	125,722
Delaware	1,441	7,956
District of Columbia	679	74,923
Florida	33,604	292,379
Georgia	59,513	337,565
Guam	4,401	10,255
Hawaii	3,237	17,134
Idaho	3,766	20,665
Illinois	54,470	498,283
Indiana	15,350	108,240
Iowa	11,948	44,096
Kansas	13,215	61,779
Kentucky	19,755	146,780
Louisiana	41,434	155,537
Maine	4,334	21,866
Maryland	15,338	93,215
Massachusetts	18,392	183,024
Michigan	30,090	294,847
Minnesota	20,676	114,673
Mississippi	31,362	164,547
Missouri	21,768	222,841
Montana	3,746	18,451
Nebraska	6,938	34,114
Nevada	5,293	21,605
New Hampshire	1,972	7,533
New Jersey	40,224	231,039
New Mexico	23,631	157,594
New York	236,116	1,480,767
North Carolina	24,945	164,957
North Dakota	4,551	14,800
Northern Mariana Islands	958	5,155
Ohio	53,375	315,191
Oklahoma	27,753	160,192
Oregon	11,401	61,336
Pennsylvania	79,529	373,152
Puerto Rico	12	156,226
Rhode Island	4,496	32,026
South Carolina	20,250	227,202
South Dakota	3,963	18,938
Tennessee	9,960	191,439
Texas	216,166	1,018,632
Utah	14,537	38,039
Vermont	1,745	8,510
Virgin Islands	5,820	15,469
Virginia	19,281	115,171
Washington	18,159	108,109
West Virginia	5,431	36,772
Wisconsin	20,709	129,812
Wyoming	1,335	12,000
<b>TOTAL</b>	<b>1,644,099</b>	<b>10,280,529</b>



### Schools and Libraries Support by Discount Band, 2003 (In thousands)

DISCOUNT BAND	INTERNAL CONNECTIONS	INTERNET ACCESS	TELECOM SERVICES	TOTAL	PERCENT OF TOTAL
20 - 29%	\$ 0	\$ 575	\$ 2,088	\$ 2,663	0.16%
30 - 39%	0	1,185	5,097	6,281	0.38%
40 - 49%	0	24,848	89,879	114,727	6.98%
50 - 59%	0	25,527	99,818	125,345	7.62%
60 - 69%	0	33,953	134,046	167,999	10.22%
70 - 79%	0	41,383	146,204	187,587	11.41%
80 - 89%	48,288	41,553	152,035	241,877	14.71%
90%	721,317	22,105	54,198	797,621	48.51%
Total	769,605	191,130	683,364	1,644,099	100.00%
Percent of Total	46.81%	11.63%	41.56%	100.00%	

### Rural/Urban Statistics, 2003 (In thousands)

RURAL/URBAN STATUS	NUMBER OF APPLICATIONS	PERCENT OF APPLICATIONS	AMOUNT	PERCENT OF TOTAL
Rural	12,549	42.70%	\$ 557,705	33.92%
Urban	11,276	38.37%	269,532	16.39%
N/A	5,563	18.93%	816,862	49.68%
Total	29,388	100.00%	\$ 1,644,099	100.00%

### Applicant Type, 2003 (In thousands)

APPLICANT TYPE	NUMBER OF APPLICATIONS	PERCENT OF APPLICATIONS	AMOUNT	PERCENT OF TOTAL
School District	16,048	54.61%	\$ 1,308,913	79.61%
Library/Library Consortium	4,357	14.83%	58,005	3.53%
School Consortium	8,262	28.11%	141,964	8.63%
Total	29,388	100.00%	\$ 1,644,099	100.00%

BOARD OF DIRECTORS 2003



Dr. Anne L. Bryant  
Executive Director  
National School Boards Association (NSBA)



Kevin Hess  
Vice President - Federal Affairs  
TDS Telecom

Karen Buller  
President & CEO  
National Indian  
Telecommunications Institute



Alison M. Hughes  
Director Rural Health Office  
University of Arizona



Anne L. Campbell  
City Librarian  
National City Public Library



James Jackson  
Regulatory Attorney  
General Communication, Inc.

James R. Coltharp  
Senior Director, Public Policy  
Comcast Corp.



Joel Lubin  
Vice President  
AT&T



David R. Conn  
Deputy General Counsel and  
Vice President McLeodUSA, Inc.



Cheryl Parrino  
Chief Executive Officer  
Universal Service Administrative Company

Diane Cornell  
Vice President for Regulatory Policy  
Cellular Telecommunications & Internet  
Association (CITA)



Robert Rivera  
President  
Spectrum Communications Inc.



Fr. William Davis  
Assistant Secretary  
United States Conference of  
Catholic Bishops



Jay H. Sanders, M.D.  
President and CEO  
The Global Telemedicine Group

Edwin H. Eichler  
President  
Pigeon Telephone Company



Jo Anne Sanford  
Chair  
North Carolina Utilities Commission



Wayne R. Jortner  
Senior Counsel  
Maine Public Advocate Office



Dr. Brian L. Talbott  
Executive Director  
Association of Educational Service Agencies  
(AESAs)

Frank J. Gumper  
Public Policy Consultant  
Verizon Communications



## Corporate Information

Universal Service Administrative Company  
2000 L St. NW, Suite 200  
Washington, DC 20036

Tel. (202) 776-0200  
(888) 641-8722  
Fax (202) 776-0080  
Website: <http://www.universalservice.org>

## Program Information

### High Cost Support Mechanism

High Cost/Low Income Division  
444 Hoes Lane  
RRC 4A1060  
Piscataway, NJ 08854  
Tel. (877) 877-4925  
Website: <http://www.universalservice.org/hc/>

### Low Income Support Mechanism

High Cost/Low Income Division  
444 Hoes Lane  
RRC 4A1060  
Piscataway, NJ 08854  
Tel. (866) 873-4665  
Website: <http://www.universalservice.org/li/>

### Rural Health Care Support Mechanism

Rural Health Care Division  
80 S. Jefferson Rd.  
Whippany, NJ, 07981  
Tel. (800) 229-5476  
E-mail: [rhc-admin@universalservice.org](mailto:rhc-admin@universalservice.org)  
Website: <http://www.rhc.universalservice.org>

### Schools and Libraries Support Mechanism

Schools and Libraries Division  
P.O. Box 7026  
Lawrence, KS 66044-7026  
Tel. (888) 203-8100  
Fax: (888) 276-8736  
E-Mail: [questions@universalservice.org](mailto:questions@universalservice.org)  
Website: <http://www.sl.universalservice.org>

## USAC Billing and Disbursement

Universal Service Administrative Company  
2000 L St. NW, Suite 200  
Washington, DC 20036  
Tel. (888) 641-8722  
Fax: (202) 835-1425  
E-Mail: [B&D@universalservice.org](mailto:B&D@universalservice.org)

Universal Service Administrative Company  
2000 L St. NW, Suite 200  
Washington, DC 20036

Tel. (202) 776-0200

(888) 641-8722

Fax (202) 776-0080

Website: <http://www.universalservice.org>