

**Universal Service  
Administrative Co.**

**2018 ANNUAL REPORT**

# Table of Contents

**Mission: Ensuring that all people in the United States have access to quality, affordable connectivity services.**

[www.usac.org](http://www.usac.org)

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The Universal Service Administrative Company (USAC) is an independent, not-for-profit corporation designated by the Federal Communications Commission (FCC) as the administrator of the Universal Service Fund.

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## Welcome

Executive Summary | **1**

Chairman's Note | **2**

---

Statements of Operations | **3**

---

## Universal Service Programs 4

High Cost Program | **5**

Lifeline Program | **6**

Rural Health Care Program | **7**

Schools and Libraries (E-rate) Program | **8**

---

Efforts to Combat Waste, Fraud, and Abuse at the Enterprise Level | **9**

---

Receipts and Outlays | **11**

---

2018 USAC Contractors Receiving \$1 Million | **13**

---

Report of Independent Auditors | **14**

---

USAC Board of Directors | **15**

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# Executive Summary



At the Universal Service Administrative Company (USAC) our mission is to implement the Universal Service Fund (USF) programs. When I joined USAC last January, my initial goal was to transform USAC into a high performing organization while having a watchful eye on fraud, waste, and abuse.

In 2018, USAC built the foundation for future success by investing in IT infrastructure, streamlining our vendor contracts, and reevaluating our approach to administering the USF programs. These moves created near-term benefits, including more efficient systems, cost savings, and process improvements that helped USAC deliver on our mission of universal service.

USAC worked closely with our partners at the Federal Communications Commission (FCC) and USF stakeholders, including the USAC Board of Directors, to continue the work of delivering USF programs.

Highlights of USAC's work in 2018 include:

- Created 18-month roadmap plans for each program (High Cost, Lifeline, Rural Health Care, Schools and Libraries) to ensure programmatic goals are met in a timely fashion.

- Transitioned program call centers, moving to two consolidated call centers, creating \$2M in cost savings annually.
- Launched Knowledge Management efforts that centralized the program, process, team, and application environments to align the knowledge, content, and training required by USAC programs.
- Completed the Connect America Fund (CAF) Map initiative— which is USAC's first open data mapping application— displaying over 1.8 million deployed broadband locations as reported by carriers in the High Cost Universal Broadband (HUBB) system. The map allows users to interact in a number of ways, along with the ability to run powerful searches and queries.
- Launched the Schools and Libraries Program online training series including 14 applicant modules and 15 service provider modules that deliver targeted, cost-effective, and on-demand learning.
- Successfully completed the transfer of USF funds to Treasury and worked with the USF's largest contributors to ensure a smooth transition to the new process.
- Negotiated and delivered a new Business Processing Outsourcing contract for the Schools and Libraries Program that changed the vendor of 20 years and resulted in approximately \$65M in savings over the next 5 years.
- Obtained an authority to operate (ATO) through the Federal Information Security Management Act (FISMA) accreditation process for the following information

systems: National Verifier, National Lifeline Accountability Database (NLAD), High Cost Universal Broadband (HUBB) Portal, Financial Operations System (FOS), E-File, and E-rate Productivity Center (EPC).

- Implemented the Graduate Recruitment Program with early career talent for a more balanced workforce; hired over 30 recent graduates/early career talent in 2018.

In the upcoming year, USAC is poised to implement many critical program components. USAC will dedicate its attention to transitioning the Business Processing Outsourcing for the Schools and Libraries Program, completing the rollout of the National Verifier in the remaining 40 states and territories, implementing new and upcoming FCC orders, and addressing architectural and IT application modernization efforts that will result from EGov. Other initiatives include exploring possibilities for modernizing USAC financial systems environment. USAC continues to improve and grow to meet the needs of USF program participants. I appreciate all the support USAC's team receives from all of its stakeholders, including FCC and the Members of the Board of USAC.

A handwritten signature in black ink, appearing to read 'Radha Sekar', written in a cursive style.

**Radha Sekar**

Chief Executive Officer  
Universal Service Administrative Company, Washington, DC

## Chairman's Note



On behalf of the Board of Directors, I salute the efforts and major accomplishments at USAC that have occurred in 2018 through the hard work, dedication, commitment, focus, creativity, and team efforts of our diversified employee base led by our new CEO, Radha Sekhar.

These efforts are critically important to fulfill the FCC's Universal Service mission. Each year, the workload and the importance of our mission increases. Each year, the USAC employee base puts team above self and works to meet these critically important demands. We are committed to deliver secure and functional systems that ensure full and successful participation in the Universal Service programs.

Joel Lubin

Chairman of the USAC Board

# Statements of Operations

The table on the right outlines the expenses related to performing the administrative functions of the Universal Service Fund. The expenses are broken out by major category, and material increases or decreases in categories from previous years are detailed below.

## Professional Fees

Professional fees related to the development of the National Verifier were higher in 2017 as the system was built and fell in 2018 as the system launched. Similarly, the E-rate Productivity Center (EPC) had higher professional fees in 2017 compared to 2018. Professional fees also decreased due to reduced expenses related to compliance audits. These decreases were offset by increased spending related to the process of gaining FISMA compliance.

## Program Expenses

The launch of the Lifeline National Verifier drove increases to the Lifeline Program BPO and Other Support Expenses. Spending for the EPC increased costs in the Operations and Maintenance Expenses category. Depreciation and Amortization expenses increased due to amortization expense associated with placing the aforementioned National Verifier in service as well as placing several EPC releases in service in 2018.

## Corporate Expenses

USAC has experienced year-over-year headcount growth, leading to the increase in Personnel and Related Expenses. Tax Expense decreased year-over-year, largely attributable to a decrease in Federal taxes followed by smaller decreases in state and D.C. corporate franchise taxes.

Other General and Administrative Expenses decreased due to the following:

- A reduction in bank charges is related to the Transfer to Treasury initiative in which USAC moved its deposits from a private banking institution to the U.S. Treasury.
- There was a significant drop in expenses associated with utilizing third party recruiting firms, as the majority of the recruiting was moved in house in 2018.
- Lastly, USAC realized savings in the area of training by moving E-rate training to lower cost venues and in some cases hosting training on site at USAC.

## Statements of Operations

For the Years Ended December 31, 2018, 2017 and 2016 | In Thousands

	2018	2017	2016
OPERATING EXPENSES:			
SLD BPO Expenses	<b>38,475</b>	37,852	39,998
Lifeline BPO and Other Support Expenses	<b>6,573</b>	2,102	2,011
High Cost Data Collection and Verification Expenses	<b>838</b>	895	1,743
Operations and Maintenance Expenses	<b>15,007</b>	7,554	7,055
Personnel and Related Expenses	<b>72,537</b>	69,917	60,193
Contract Labor Expenses	<b>13,651</b>	13,356	7,964
Computer Support and Hardware Expenses	<b>14,014</b>	13,705	9,508
Professional Fees Expenses	<b>14,310</b>	20,529	30,228
Office and Colocation Rent Expenses	<b>7,526</b>	7,293	(1,260)
Tax Expenses	<b>1,226</b>	4,534	4,990
Other General and Administrative Expenses	<b>4,478</b>	5,859	8,206
Depreciation and Amortization Expenses	<b>16,033</b>	13,132	8,870
<b>Total</b>	<b>204,668</b>	<b>196,730</b>	<b>179,506</b>

Total operating expenses may differ from reported administrative transfers because December 2018 expenses are paid in January 2019.

# Universal Service Programs

## 2018 Universal Service Fund Authorized Support\*

Unaudited | In Thousands

PROGRAM	
High Cost	\$4,684,526
Lifeline	\$1,142,777
Rural Health Care	\$ 298,620
Schools and Libraries (E-rate)	\$2,204,556
<b>Total</b>	<b>\$8,330,479</b>

\*Authorized Support includes all funding approved for distribution for the months of January–December, including funding approved but not yet disbursed (due to the Red Light Rule). It does not include recoveries from audits, appeals and other enforcement errors.

Note: Numbers may not add due to rounding.

# High Cost Program

The High Cost Program provides funding to telecommunications carriers to deliver service in rural areas where the market alone cannot support the high cost of deploying network infrastructure and supplying connectivity. The High Cost Program historically subsidized voice service. In 2011, the FCC began reforming the High Cost Program to pay for broadband too. Today, the modernized Connect America Fund (CAF) aims to close the digital divide with a series of new funds that require carriers to meet defined broadband build-out obligations. As illustrated with a new public map, the impact of those investments is now taking shape across rural America with the ongoing transition from legacy to modernized funds.

## In 2018, the High Cost Program:

- **Disbursed \$4.8 billion in support:** Payments included \$64.2 million to restore service following devastating hurricanes in Puerto Rico and the Virgin Islands, and \$52.8 million in additional support for the Alternative Connect America Cost Model (ACAM).
  - **Tracked broadband build out:** Carriers participating in modernized funds must file deployment data with the High Cost Universal Broadband (HUBB) portal showing where they are building out high-speed Internet service by latitude and longitude. The HUBB performs automated validation checks of this data to track deployment reported by carriers.
- CAF Phase II carriers were the first to file in the HUBB in July 2017, but March 2018 marked the first deadline for four additional funds: ACAM, Connect America Fund Broadband Loop Support, the Alaska Plan, and Rural Broadband Experiments. Together, 98% of carriers required to file across these five funds had successfully certified more than 2 million location records by the March deadline.
- **Launched the CAF Map:** In October of 2018, the High Cost Program published an interactive online map to show the impact of the Connect America Fund on broadband expansion

across rural America. The CAF Map displays the geographic areas eligible for CAF support, as well as the specific locations where carriers have built out mass market, high-speed Internet service. The data in the map comes directly from the HUBB.

- **Confirmed broadband deployment:** The High Cost Program performs extensive compliance work to verify that carriers are building out broadband to the locations submitted to the HUBB. USAC conducted in-depth reviews to substantiate deployment for a sample of the 1.9 million CAF Phase II locations filed by price-cap carriers facing a 40% build-out requirement by the end of 2017.
- **Supported the MF II Challenge Process:** The High Cost Program developed the Challenge Process portal to prepare

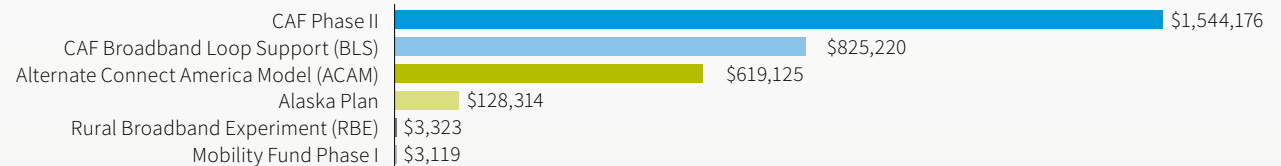
for the Mobility Fund Phase II, which will invest up to \$4.53 billion in rural wireless service over 10 years. The portal collected wireless speed test data submitted by carriers and other stakeholders to show that areas initially deemed ineligible for MF II support should qualify because they lack unsubsidized 4G LTE service at adequate speeds. By the time the challenge window closed in late 2018, 21 entities had certified valid challenges.

In 2019 the High Cost Program will implement more modernized funds, including CAF Phase II Auction, and more modernization orders, including an order requiring carriers to conduct network speed and latency testing.

## Modernized Funds — 2018 Disbursements

**Total: \$3,123,277**

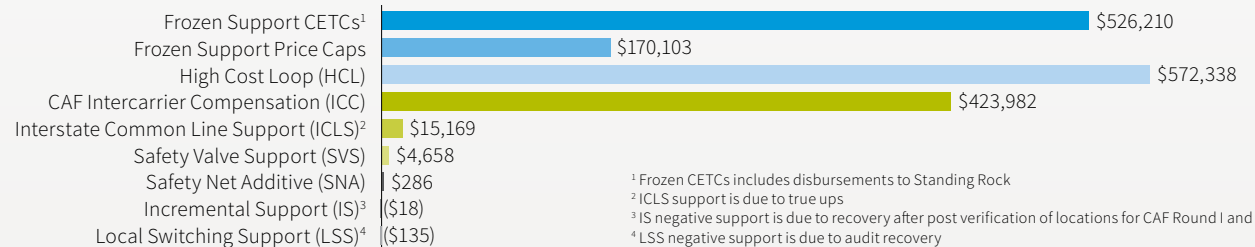
Unaudited | In Thousands



## Legacy Funds — 2018 Disbursements

**Total: \$1,712,593**

Unaudited | In Thousands



<sup>1</sup> Frozen CETCs includes disbursements to Standing Rock

<sup>2</sup> ICLS support is due to true ups

<sup>3</sup> IS negative support is due to recovery after post verification of locations for CAF Round I and II

<sup>4</sup> LSS negative support is due to audit recovery

# Lifeline Program

The Lifeline Program helps more than 9 million households in need obtain voice and broadband connectivity services critical to participate and function in today's digital world. The program provides support to telecommunications companies that offer discounts on telecommunications services to eligible consumers. While Lifeline Program participation has decreased since 2016, the number of Lifeline Program consumers receiving broadband has increased steadily each year, allowing more consumers to connect to important internet services.

## In 2018, the Lifeline Program:

- Streamlined Payments to Providers:** The Lifeline Program introduced the Lifeline Claims System (LCS) in February 2018. LCS is an online system that authorizes payments to providers based on the number of subscribers enrolled in the National Lifeline Accountability Database (NLAD). Prior to this system, service providers would self-certify the number of subscribers enrolled and their reimbursement amount. LCS allows the Lifeline Program to more accurately track usage and disburse funds, improving both program functionality and integrity.
- Launched the National Verifier:** In June 2018, the Lifeline Program launched the National Verifier in the first six states (Colorado, Mississippi, Montana, New Mexico, Utah, and Wyoming). The National Verifier establishes whether a consumer is eligible by electronically querying state and federal data sources and, if necessary, manually reviewing supporting documents. The Lifeline Program and the FCC signed Computer Matching Agreements (CMAs) that allowed USAC to connect with the Federal Public Housing database nationwide and eight state databases for federal programs. Since its initial launch, the Lifeline Program has introduced the system into 10 additional states and territories and processed 26,000 National Verifier applications, 25,000 of which were in automated states with 73% of eligibility automatically verified.

The system, which shifts the responsibility of determining consumer eligibility from service providers to the Lifeline Program, provides consumers with a streamlined experience. If no errors are found in a consumer's online application, they can expect an eligibility decision within seconds. If the consumer needs to resolve an error and does so through the service provider or consumer portal, the consumer receives an eligibility decision within minutes. The average time for an automated application, from start to finish, is 4 minutes, and the average time for a non-escalated, manual review of an application is 6 minutes.

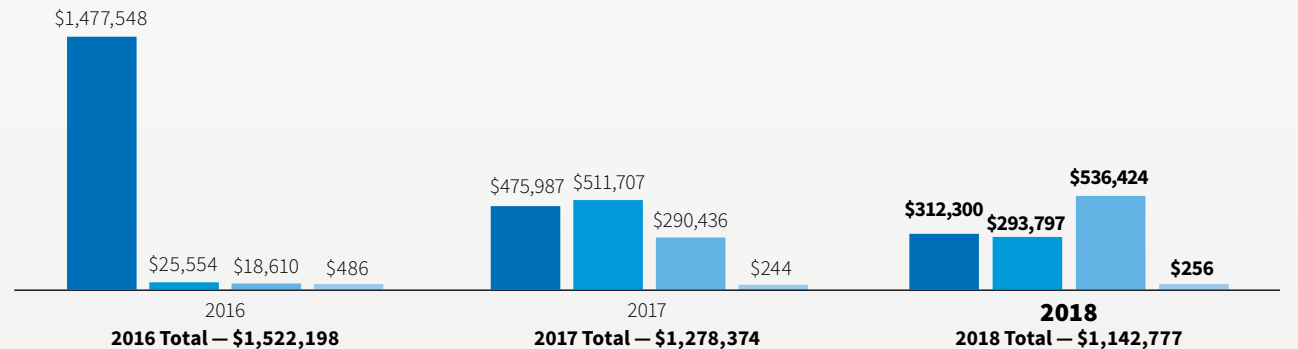
- Introduced Universal Forms:** In July 2018, the Lifeline Program introduced universal application, recertification, and household worksheet forms. Approved by OMB, the forms improve the consumer experience and resolve confusion around flawed forms created by carriers. Flawed forms contributed to 20 points of the 21.93% Lifeline Program Improper Payments Rate in 2017. The introduction of universal forms will reduce the number of improper payments and strengthen the integrity of the Lifeline Program.

- Strengthened Program Integrity:** While the National Verifier is rolled out across the nation, the program has continued to undertake additional activities that protect the integrity of the Lifeline Program. Throughout 2018 the Lifeline Program Integrity team performed reviews in states not yet in the Verifier. Through these efforts, reviewers found and de-enrolled 134,000 unresponsive subscribers. System enhancements introduced to the NLAD improved the duplicate check algorithm to further reduce risk of duplicate subscribers, particularly where attempts are made to slightly manipulate PII data to circumvent controls. These improvements ensure that eligible consumers receive the benefit while deterring fraudulent activity within the Lifeline Program.

Looking ahead to 2019, the Lifeline Program anticipates fully launching the National Verifier in all 56 states and territories, which will deliver a streamlined, consistent verification process for potential Lifeline Program subscribers and will enable greater protection against program waste, fraud, and abuse.

## Total Authorized Support by Service Category\*

Unaudited | In Thousands



\*Lifeline Program service providers can revise previous reimbursement claims and may file reimbursement claims either monthly or quarterly up to one year after a data month. This may change previously reported disbursement totals and accounts for the differences between the Lifeline Authorized Support reported here and in previous annual reports.



# Rural Health Care Program

The Rural Health Care Program provides support to eligible rural health care providers (HCPs) that qualify for reduced rates for telecommunications and broadband services. This subsidizes their access to these services, making telehealth services affordable in rural areas. Demand for the Rural Health Care Program funding has risen over the past three years with a sharp increase in demand in FY2017, supporting the FCC's decision to raise the RHC Program funding cap.

## In 2018, the Rural Health Care Program:

- **Expanded the RHC Program Help Desk:** The RHC Program expanded its help desk and made significant customer service improvements. The help desk now includes dedicated agents and a tiered escalation system to ensure questions are directed to internal subject matter experts. Help desk hours were expanded from the original 9 a.m. to 5 p.m. E.T., to longer operational hours of 8 a.m. to 8 p.m. E.T. to accommodate west coast participants.
- **Issued FY2018 Funding Decisions:** In FY2018, the approximate total gross demand increased by 17.4% from FY2017. The RHC Program focused on efficiency, accuracy, and timely form reviews in order to address growing demand

and began distributing FY2018 funding commitments in November, four months earlier than FY2017.

- **Enhanced Resources & Training:** The RHC Program provided new participant resources, including webinars, tip sheets, and monthly newsletters, with updates and guidance to facilitate timely and accurate submission forms. The RHC Program also actively sought participant feedback on existing resources and implemented changes based on their comments.
- **Focused on Program Compliance:** The RHC Program increased program integrity by reviewing and documenting processes and procedures, ensuring alignment with FCC rules and identifying opportunities for efficiencies and improvements. The RHC Program added resources to its appeals team, resulting in four times more appeals cleared in 2018 over 2017.
- **Implemented Program Changes:** The FCC issued the 2018 Funding Cap Order on June 25, 2018, which increased the annual RHC Program funding cap to \$571 million and applied that funding increase to approved and previously prorated FY2017 commitments. The FCC Order

also annually adjusts the RHC Program funding cap for inflation, beginning with FY2018, and establishes a process to carry-forward unused funds from past funding years for use in future funding years. The RHC Program immediately communicated this program update and distributed resources to account holders impacted by the FY2017 proration removal. Within two weeks, the RHC Program sent revised funding commitment letters that reflected the new fully funded commitment amounts. Within four weeks, the RHC Program disbursed supplemental payments due to proration removal. Within eight weeks, the RHC Program implemented an IT solution to increase commitment amounts and allow for seamless future invoicing.

Looking forward, the RHC Program will continue to focus on program integrity, enhancing participant experience, and improving operational efficiency. We anticipate adding additional resources such as RHC Program data to open data platforms.

# Schools and Libraries (E-rate) Program

The Schools and Libraries Program, commonly known as E-rate, helps ensure that schools and libraries can obtain high-speed Internet access and telecommunications at affordable rates.

This year the E-rate Program increased operational efficiency, created new approaches for training that are more accessible and engaging, and improved customer service. From 2016 to 2018, E-rate increased application processing speed to issue the majority of funding decisions earlier each year.

## In 2018, The E-rate Program:

- **Issued Faster Commitments:** During the Funding Year (FY) 2018 application filing window (January 11-March 22, 2018), USAC received 35,000 applications for \$2.77B. The first funding commitment wave – which was split into two consecutive waves because of its size – included 15,000 applications amounting to over \$503M in funding requests. Within 30 days of the window closing, USAC had issued funding commitment decisions on 43% of the applications that were filed in the window. By the beginning of June, we committed \$1B on 18,000 applications.

The E-rate Program focused on turnaround times for reviewing post-commitment requests including appeals. The average review time to complete appeals is currently under 75 days.

Throughout the year, the E-rate Program focused on system and review processes to reduce system defects

and improve overall efficiency, while still retaining effective internal controls.

- **Launched the Call Center Launch:** The E-rate Program successfully transitioned our customer service call center operations to a new vendor. The new vendor was trained throughout the FY2018 application filing window and fully took over call center operations on June 1, 2018. Throughout the year, USAC provided ongoing staff training and developed a programmatic knowledge base for the call center to utilize in order to provide faster responses to inquiries.

- **Enhanced Training Initiatives:** The E-rate Program provided beginner and advanced E-rate Program training to approximately 1,000 program participants in the following locations: Washington, DC (four trainings); Sacramento, CA; Palatine, IL; Omaha, NE; and Atlanta, GA. Six of the trainings focused on the applicant experience and two on the service provider experience. All attendees had the option of attending a half-day beginner session, and some of the individual sessions during the full day of training included both beginner and advanced tracks.

- More than 97% said that the trainings were helpful; and
- All who attended the new half-day beginner session said it was somewhat or very effective, and over 86% found the newly included case studies helpful.

The E-rate Program team collaborated with USAC's Shared Services team to design 14 online training modules for applicants using content from this year's fall training events, each focused on a specific E-rate Program topic. Applicants can use this new, interactive series to learn more about the program at their own pace. A similar set of training modules is in development for service providers.

- **Focused on Outreach:** E-rate Program monthly webinars attract hundreds of viewers, and over 60,000 participants subscribe to our weekly newsletter. The E-rate Program team continues to improve outreach to make participants aware of the program rules and requirements so that they can better complete their applications. The E-rate Program also initiated a comprehensive plan to update and develop webpage guidance, user guides, and video tutorials.

The E-rate Program transitioned to a new Business Processing Operations vendor in early 2019, a project that began with significant preparation in 2018 including documenting processes and procedures, identifying opportunities for efficiencies, and building a USAC task force to address participant concerns. The E-rate Program will continue its efforts to better serve E-rate Program participants by adding extra applicant and service provider support and implementing enhancements to improve the experience for all members of the E-rate community.

# USAC 2018 Efforts to Combat Waste, Fraud, and Abuse at the Enterprise Level

Combatting waste, fraud, and abuse and safeguarding the integrity of the Universal Service Fund is a priority for USAC and a focus of the organization's Audit and Assurance (AAD) and Enterprise Portfolio Management (EPMO) Divisions. Together with the programs, these divisions achieved the following milestones in 2018.

- **Revamped Audit Approach.** AAD, in coordination with the FCC, determined a reasonable balance between selecting risk-based and non-risk-based beneficiary and contributor audits to ensure that audits were objective and representative of the total population. USAC conducted audit readiness outreach and training to reduce recurring audit findings. USAC successfully transitioned the risk-based internal controls testing role and related documentation to the newly formed A123 team within finance.
- **Expanded Enterprise Risk Management.** USAC expanded the responsibilities of the Enterprise Risk Management (ERM) program and transitioned ERM to the Enterprise Portfolio Management Division, instituting a more defined Risk Management Council and centralized management of corrective action plans to integrate the risk mitigation process.
- **Increased Governance.** The EPMO Division established greater governance by bringing USAC leadership together to discuss key accomplishments and areas of opportunity to support enterprise-wide decision making. The modified governance framework incorporates decision making tools and measures used to determine escalation to the FCC and/or the USAC Board of Directors as oversight bodies.
- **Data Warehousing.** EPMO Division completed the conceptual model for the data warehouse and developed dashboards detailing business and operations performance to improve governance of USAC data by leading to one source of truth and a greater capability to use data to drive key business decisions.

## In 2018, USAC collected more than \$8 billion from contributors, which was used to fund the four programs of the USF.

The High Cost program disbursement increases in 2018 include additional support for Puerto Rico and U.S. Virgin Islands hurricane relief that went out beginning in August, as well as payments related to the revised ACAM support mechanism that also began in the same timeframe. The final significant driver of the increase in payments came in November following the FCC's adoption of the March 2018 Order to provide \$180 million in one-time funding to mitigate the effect of the budget control mechanism for the current funding year.

For the Rural Health Care Program, 2018 marked a year in which the funding cap was raised from \$400 million to \$571 million, illustrated by an increase in disbursements in the latter half of 2018.

The Lifeline and Schools and Libraries (E-rate) Programs did not experience significant changes to programs disbursements in 2018.

# Quarterly Break Down of Receipts and Outlays for the Calendar Year 2016-2018

Unaudited | In Thousands

Program names	Details	1Q18	2Q18	3Q18	4Q18	Total
<b>USF</b>	TOTAL Receipts from Operations	2,094,377	2,033,203	1,985,647	2,045,939	8,159,167
<b>Schools and Libraries</b>	Disbursements from Operations	(569,839)	(462,227)	(594,774)	(549,081)	(2,175,921)
	Administrative Transfers	(20,041)	(24,418)	(21,980)	(18,960)	(85,399)
<b>High Cost</b>	Disbursements from Operations	(1,132,298)	(1,138,164)	(1,247,849)	(1,318,529)	(4,836,839)
	Administrative Transfers	(14,828)	(18,971)	(17,077)	(14,731)	(65,607)
<b>Lifeline</b>	Disbursements from Operations	(304,329)	(302,242)	(282,442)	(274,797)	(1,163,810)
	Administrative Transfers	(7,456)	(9,970)	(8,974)	(7,741)	(34,141)
<b>Rural Health Care</b>	Disbursements from Operations	(19,905)	(62,609)	(82,675)	(131,645)	(296,834)
	Administrative Transfers	(2,248)	(2,620)	(2,358)	(2,034)	(9,260)
<b>TOTAL</b>	TOTAL Disbursements from Operations <sup>1</sup>	(2,026,370)	(1,965,242)	(2,207,739)	(2,274,053)	(8,473,404)
	TOTAL Administrative Transfers <sup>2</sup>	(44,572)	(55,979)	(50,390)	(43,466)	(194,408)

Program names	Details	1Q17	2Q17	3Q17	4Q17	Total
<b>USF</b>	TOTAL Receipts from Operations	2,022,513	1,957,055	1,875,811	1,968,118	7,823,498
<b>Schools and Libraries</b>	Disbursements from Operations	(633,431)	(748,374)	(685,109)	(552,469)	(2,619,383)
	Administrative Transfers	(23,900)	(26,849)	(23,444)	(20,608)	(94,803)
<b>High Cost</b>	Disbursements from Operations	(1,140,525)	(1,158,490)	(1,174,231)	(1,194,901)	(4,668,147)
	Administrative Transfers	(16,297)	(18,598)	(16,320)	(14,346)	(65,560)
<b>Lifeline</b>	Disbursements from Operations	(332,954)	(314,944)	(309,053)	(310,528)	(1,267,478)
	Administrative Transfers	(7,705)	(8,825)	(7,435)	(6,784)	(30,749)
<b>Rural Health Care</b>	Disbursements from Operations	(43,144)	(79,231)	(98,399)	(40,424)	(261,198)
	Administrative Transfers	(2,853)	(3,162)	(3,046)	(2,429)	(11,491)
<b>TOTAL</b>	TOTAL Disbursements from Operations <sup>1</sup>	(2,150,054)	(2,301,039)	(2,266,791)	(2,098,322)	(8,816,206)
	TOTAL Administrative Transfers <sup>2</sup>	(50,755)	(57,435)	(50,245)	(44,167)	(202,603)

Program names	Details	1Q16	2Q16	3Q16	4Q16	Total
<b>USF</b>	TOTAL Receipts from Operations	2,251,204	2,233,850	2,224,717	2,118,663	8,828,433
<b>Schools and Libraries</b>	Disbursements from Operations	(503,458)	(705,136)	(617,041)	(574,058)	(2,399,693)
	Administrative Transfers	(21,648)	(23,530)	(24,531)	(21,018)	(90,727)
<b>High Cost</b>	Disbursements from Operations	(1,122,196)	(1,171,535)	(1,116,316)	(1,088,692)	(4,498,739)
	Administrative Transfers	(12,835)	(15,933)	(16,590)	(14,214)	(59,574)
<b>Lifeline</b>	Disbursements from Operations	(383,250)	(385,808)	(384,097)	(380,930)	(1,534,085)
	Administrative Transfers	(5,987)	(7,301)	(7,583)	(6,497)	(27,368)
<b>Rural Health Care</b>	Disbursements from Operations	(60,494)	(74,826)	(95,417)	(68,626)	(299,363)
	Administrative Transfers	(2,873)	(2,950)	(3,059)	(2,621)	(11,504)
<b>TOTAL</b>	TOTAL Disbursements from Operations <sup>1</sup>	(2,069,399)	(2,337,305)	(2,212,870)	(2,112,306)	(8,731,880)
	TOTAL Administrative Transfers <sup>2</sup>	(43,343)	(49,714)	(51,764)	(44,351)	(189,173)

<sup>1</sup>Disbursements from operations equals cash outlays less Administrative Transfers to USAC.

<sup>2</sup>Administrative transfers represent actual funds transferred from USF to USAC in support of administrative costs. Administrative transfers and administrative expense may differ due to timing between when expense is recognized vs the actual transfer of cash.

# Monthly Break Down of Receipts and Outlays for the Calendar Year 2018

Unaudited | In Thousands

Program names	Details	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Total
<b>USF</b>	TOTAL Receipts from Operations	688,121	699,294	706,962	696,030	667,700	669,473	660,356	657,422	667,870	664,834	691,858	689,247	8,159,167
<b>Schools and Libraries</b>	Disbursements from Operations	(191,970)	(194,603)	(183,266)	(151,647)	(165,159)	(145,420)	(239,474)	(176,253)	(179,047)	(296,699)	(124,161)	(128,222)	(2,175,921)
	Administrative Transfers	(6,559)	(6,995)	(6,488)	(7,482)	(10,971)	(5,965)	(9,946)	(3,549)	(8,485)	(6,369)	(5,607)	(6,984)	(85,399)
<b>High Cost</b>	Disbursements from Operations	(382,133)	(373,238)	(376,926)	(374,613)	(374,253)	(389,298)	(375,032)	(492,798)	(380,019)	(381,476)	(556,715)	(380,338)	(4,836,839)
	Administrative Transfers	(4,565)	(5,222)	(5,041)	(5,813)	(8,524)	(4,635)	(9,412)	(1,073)	(6,592)	(4,948)	(4,356)	(5,426)	(65,607)
<b>Lifeline</b>	Disbursements from Operations	(102,780)	(103,243)	(98,306)	(108,555)	(96,831)	(96,857)	(95,837)	(94,948)	(91,657)	(93,824)	(91,910)	(89,063)	(1,163,810)
	Administrative Transfers	(2,159)	(2,648)	(2,649)	(3,055)	(4,479)	(2,436)	(4,315)	(1,195)	(3,464)	(2,601)	(2,289)	(2,851)	(34,141)
<b>Rural Health Care</b>	Disbursements from Operations	(8,110)	(5,258)	(6,536)	(27,923)	(18,554)	(16,132)	(23,614)	(43,615)	(15,446)	(26,350)	(85,676)	(19,618)	(296,834)
	Administrative Transfers	(773)	(778)	(696)	(803)	(1,177)	(640)	(1,180)	(268)	(910)	(683)	(602)	(749)	(9,260)
<b>TOTAL</b>	TOTAL Disbursements from Operations <sup>1</sup>	(684,994)	(676,342)	(665,034)	(662,738)	(654,797)	(647,707)	(733,957)	(807,615)	(666,168)	(798,350)	(858,462)	(617,241)	(8,473,404)
	TOTAL Administrative Transfers <sup>2</sup>	(14,056)	(15,642)	(14,874)	(17,152)	(25,151)	(13,676)	(24,854)	(6,085)	(19,452)	(14,602)	(12,854)	(16,011)	(194,408)

<sup>1</sup>Disbursements from operations equals cash outlays less Administrative Transfers to USAC.

<sup>2</sup>Administrative transfers represent actual funds transferred from USF to USAC in support of administrative costs. Administrative transfers and administrative expense may differ due to timing between when expense is recognized vs the actual transfer of cash.

# 2018 USAC Contractors Receiving Payments Greater Than \$1 Million

In 2018, USAC engaged fifteen contractors receiving payments greater than \$1 million. USAC follows competitive procurement procedures for any procurement that exceeds a \$10,000 purchase threshold. Any non-competitive procurement that exceeds the \$10,000 purchase threshold must be reported to the FCC and USAC's Board of Director's annually in a Competition Advocate report.

The following list details USAC's 2018 contractors receiving payments of \$1 million or greater. All contractors receiving payments greater than one million dollars have been assessed and their work has been deemed to be satisfactory or better.

CONTRACTOR/VENDOR	TYPES OF GOODS / SERVICES	PROCUREMENT METHOD
Solix, Inc.	E-rate Operational Support Services	Non-Competitive
Incentive Technology Group, LLC	EPC Consulting and IT Implementation Services	Non-Competitive
Clearpath Solutions Group, LLC	Various IT Systems, Hardware, and Software Solutions	Competitive
Cigna Healthcare	Employee Benefits	Competitive
Accenture Federal Services	Lifeline National Verifier Eligibility Database System	Competitive
NTCA	Employee Benefits	Competitive
Ampcus, Inc.	IT Staff Augmentation Services	Competitive
SHI	Various IT Systems, Hardware, and Software Solutions	Competitive
Jamestown Premier One Metro Center Corporation	Office Lease	Competitive
HireStrategy	IT Staff Augmentation Services	Competitive
Appian Corporation	Appian Operations, Maintenance, and Cloud Services	Competitive
Conduent State & Local Solutions	Lifeline National Verifier Business Process Outsourcing Services	Competitive
ManpowerGroup Public Sector, Inc.	IT Staff Augmentation Services	Competitive
Oracle America, Inc.	IT Software Solution	Non-Competitive
vCloud Tech, Inc.	IT Software Maintenance and Support	Competitive

Dollar Range:	>\$5 million	\$2 million-\$5 million	\$1 million-\$2 million
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# Report of Independent Auditors

**To the Board of Directors of Universal Service Administrative Company:**

## **Report on the Financial Statements**

We have audited the [accompanying financial statements](#) of Universal Service Administrative Company (the “Company”), which comprise the statement of financial position as of December 31, 2017 and 2016, and the related statements of operations and change in unrestricted net assets and cash flows for the years then ended.

## **Management’s Responsibility for the Financial Statements**

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

## **Auditors’ Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its operations and change in unrestricted net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional combining supplemental schedules of financial position applicable to the Federal USF, of changes in net assets

applicable to the Federal USF, and of cash flows applicable to the Federal USF are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we also have issued a report dated July 11, 2018 on our consideration of the Company’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company’s internal control over financial reporting and compliance and other matters.



PricewaterhouseCoopers LLP  
McLean, Virginia  
July 11, 2018

Click [here](#) for the full Report of Independent Auditors.



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