

# 2004 Board of Directors Meetings Minutes

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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY****BOARD OF DIRECTORS MEETING**

January 13, 2004

**MINUTES**

A meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the USAC office in Washington, DC, on Tuesday, January 13, 2004. Mr. Gumper, Chair of the Board, called the meeting to order at 3:33 p.m. Eastern Time. Ms. Howard, Executive Assistant to the CEO, called the roll. Eleven of the nineteen members were present, representing a quorum:

<b>Thirteen of the nineteen members were present, representing a quorum (there is one vacancy):</b>	
Baker, Dave – <i>by telephone</i>	Gumper, Frank – Chair – <i>by telephone</i>
Bryant, Anne – <i>by telephone</i>	Jortner, Wayne – Treasurer – <i>by telephone</i>
Campbell, Anne – <i>by telephone</i>	Parrino, Cheryl – CEO
Cornell, Diane – <i>by telephone</i>	Sanford, Jo Anne – <i>by telephone</i>
Duff, Bridget – <i>by telephone</i>	Talbott, Dr. Brian – <i>by telephone</i>
Eichler, Ed – <i>by telephone</i>	
<b>One member joined the meeting in progress:</b>	
Askin, Jonathan	
<b>Seven members were absent:</b>	
Buller, Karen	Jackson, Jimmy – Secretary
Christensen, Doug	Lubin, Joel – Vice Chair
Hess, Kevin	Sanders, Dr. Jay
Hughes, Alison	
<b>Others Present for the Meeting:</b>	
<b>Name</b>	<b>Company</b>
Howard, Cathy – <i>by telephone</i>	USAC

**ACTION ITEMS:**

***Executive Session:***

Board member Mr. Askin joined the meeting during the discussion of this item.

**a1. Selection of the USAC CEO – Confidential & Proprietary – *Executive Session Recommended.*** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in ***Executive Session***, Mr. Gumper recommended that discussion of this item be conducted in ***Executive Session*** because discussion of this matter relates to an *internal personnel matter* regarding the USAC CEO.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that the discussion of a personnel matter regarding the USAC CEO shall be conducted in ***Executive Session***.

The Board then immediately moved into ***Executive Session***. Mr. Gumper led the discussion explaining that the Search Committee consisting of Ms. Cornell, Dr. Talbott, and himself had unanimously arrived at a recommendation for the new CEO.

On a motion duly made and seconded, the Board unanimously adopted the following resolutions:

**RESOLVED**, That the USAC Board of Directors accepts the recommendation of the USAC Search Committee to offer the position of Chief Executive Officer of USAC to the recommended candidate and to enter into a contract with the recommended candidate contingent on the approval of FCC Chairman Mr. Michael Powell; and

**RESOLVED FURTHER**, That the USAC Board of Directors directs that a letter, signed by the Chairman of the USAC Board of Directors, be submitted to FCC Chairman Mr. Michael Powell seeking approval of recommended candidate as its Chief Executive Officer.

Mr. Gumper noted that the name of the person being recommended should remain confidential until after the press release announcing the candidate is issued. He said that USAC staff would inform the Board by e-mail once that occurred.

The Board adjourned from ***Executive Session*** and reconvened in open session at 4:05 p.m. to report the discussion and action of the Board during ***Executive Session***.

There being no further business, Mr. Gumper adjourned the meeting at 4:09 p.m.

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Robert W. Haga  
Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY****BOARD OF DIRECTORS MEETING**

January 27, 2004

**MINUTES**

The quarterly meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the USAC office in Washington, DC on Tuesday, January 27, 2004. Mr. Gumper, Chair of the Board, called the meeting to order at 8:30 a.m. Eastern Time. Ms. Howard, Executive Assistant to the CEO, called the roll.

<b>Seventeen of the nineteen members were present, representing a quorum:</b>	
Askin, Jonathan	Hess, Kevin
Baker, Dave	Jackson, Jimmy - Secretary
Bryant, Anne	Jortner, Wayne - Treasurer
Campbell, Anne - <i>by telephone</i>	Lubin, Joel - Vice Chair
Christensen, Doug - <i>by telephone</i>	Parrino, Cheryl - CEO
Cornell, Diane	Sanders, Dr. Jay
Duff, Bridget	Sanford, Jo Anne - <i>by telephone</i>
Eichler, Ed	Talbott, Dr. Brian
Gumper, Frank - Chair	
<b>Two members joined the meeting in progress:</b>	
Buller, Karen	Hughes, Alison
<b>Other Officers of the Corporation present:</b>	
Barash, D. Scott - Vice President and General Counsel	
Blackwell, Mel - VP, External Communications and Rural Health Care Division	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George - VP, Schools and Libraries Division	
Scott, Wayne - VP, Internal Audit Division	
<b>Others present for the meeting:</b>	
<b>Name</b>	<b>Company</b>
Carroll, Kristy	USAC
Cheng, Anita	FCC
Divak, Helen	Telcordia
Howard, Cathy	USAC
Krzos, Joe	USAC
Miller, Linda	USAC
Mitchell, Jeff	USAC
Parry, John	NECA Services, Inc.
Sandy, Colin	NECA
Trew, Anne Marie	USAC

**ACTION ITEMS:**

- a1. Annual Election of Officers and Committee Chairs and Vice Chairs.** Ms. Parrino reported to the Board the nominations for officers and Committee Chairs and Vice Chairs as recommended by the Nominating and Audit Committees and the respective programmatic committees.

On a motion duly made and seconded, the Board adopted the following resolutions:

**RESOLVED,** That the USAC Board of Directors accepts the recommendations of the USAC Nominating Committee to elect **Mr. Frank Gumper** as Chair of the Board of Directors; **Mr. Joel Lubin** as Vice Chair; **Mr. Jimmy Jackson** as Secretary; **Mr. Wayne Jortner** as Treasurer; **Mr. Robert Haga** as Assistant Secretary; and **Mr. Mark Carmichael** as Assistant Treasurer for the term of one year that shall begin at the conclusion of the January 2004 quarterly Board meeting and that shall conclude at the close of the January 2005 quarterly Board meeting; and,

**RESOLVED FURTHER,** That the USAC Board of Directors accepts the recommendations of the USAC Audit Committee to elect **Mr. Ed Eichler** as Chair and **Ms. Anne Campbell** as Vice Chair of the Audit Committee for the term of one year that shall begin at the conclusion of the January 2004 quarterly Board meeting and that shall conclude at the close of the January 2005 quarterly Board meeting; and,

**RESOLVED FURTHER,** That the USAC Board of Directors accepts the recommendations of the USAC High Cost & Low Income Committee to elect **Mr. Kevin Hess** as Chair and **Mr. Joel Lubin** as Vice Chair of the USAC High Cost & Low Income Committee for the term of one year that shall begin at the conclusion of the January 2004 quarterly Board meeting and that shall conclude at the close of the January 2005 quarterly Board meeting; and,

**RESOLVED FURTHER,** That the USAC Board of Directors accepts the recommendations of the USAC Rural Health Care Committee to elect **Dr. Jay Sanders** as Chair and **Mr. Jimmy Jackson** as Vice Chair of the USAC Rural Health Care Committee for the term of one year that shall begin at the conclusion of the January 2004 quarterly Board meeting and that shall conclude at the close of the January 2005 quarterly Board meeting; and,

**RESOLVED FURTHER,** That the USAC Board of Directors accepts the recommendations of the USAC Schools & Libraries Committee to elect **Dr. Brian Talbott** as Chair and **Dr. Anne Bryant** as Vice Chair of the USAC Schools & Libraries Committee for the term of one year that shall begin at the conclusion of the January 2004 quarterly Board meeting and that shall conclude at the close of the January 2005 quarterly Board meeting.

- a2. Approval of the Minutes.** On a motion duly made and seconded, the Board approved the minutes as distributed of Tuesday, September 30, 2003; Tuesday, October 21, 2003; Monday, October 27, 2003; and Thursday, December 18, 2003.

Board member Ms. Buller joined the meeting at this point.

- a3. Reports from the Committee Chairs.** Each of the Chairs of the USAC programmatic Committees reported on issues discussed and action taken by each Committee since the October 2003 quarterly meetings: Dr. Talbott reported on the Schools & Libraries Committee meetings of December 11, 2003, and January 26, 2004; Dr. Sanders reported on the Rural Health Care Committee meeting of January 26, 2004; Mr. Hess reported on the High Cost & Low Income Committee meetings of December 3, 2003, and January 26, 2004; Mr. Eichler reported on the Audit Committee meetings of December 11, 2003, and January 22 and 26, 2004; and Mr. Gumper reported on the Executive Committee meeting of January 22, 2004.

The minutes of each Committee meeting provide a full accounting of the discussions and actions taken by the Committees.

- a4. Adoption of Resolutions to Honor Mr. James Coltharp, Father William Davis, and Mr. Robert Rivera.** Mr. Gumper introduced this item. He said that a copy of the issue paper along with a letter of appreciation signed by the CEO and Chair would be mailed to each of these three departing Board member. The consensus of the Board was that the statements appropriately captured the spirit of each member's service to the Board.

On a motion duly made and seconded, the Board adopted the following resolutions:

**RESOLVED**, That the USAC Board of Directors hereby expresses its sincere appreciation to Mr. James Coltharp for his service on the Board of Directors for the Universal Service Administrative Company and wishes him the best in his future endeavors; and

**RESOLVED FURTHER**, That the USAC Board of Directors hereby expresses its sincere appreciation to Father William Davis for his service on the Board of Directors for the Universal Service Administrative Company and wishes him the best in his future endeavors; and

**RESOLVED FURTHER**, That the USAC Board of Directors hereby expresses its profound appreciation to Mr. Robert Rivera for his service on the Board of Directors for the Universal Service Administrative Company and wishes him the best in his future endeavors.

- a5. Approval of April 2005 - January 2006 Board of Directors Quarterly Meeting Schedule.** Ms. Howard introduced this item. She indicated that the Board has the option of choosing from a Monday/Tuesday meeting schedule or a Tuesday/Wednesday meeting schedule for the quarterly meetings beginning in April 2005. The Board determined to choose the Tuesday/Wednesday schedule and subsequently amended the resolution to change the previously established schedule beginning with the July 2004 quarterly meetings to a Tuesday/Wednesday schedule as well.

On a motion duly made and seconded, the Board adopted the following resolutions, *as amended (in italics)*:

**RESOLVED**, That the USAC Board of Directors adopts the following Board of

Directors and Committee quarterly meetings schedule for April 2005 - January 2006:

<b>Audit Committee Part I and Executive Committee</b>	<b>Programmatic Committees and Board of Directors</b>
April 14, 2005	April 19 - 20, 2005
July 14, 2005	July 19 - 20, 2005
October 20, 2005	October 25 - 26, 2005
January 19, 2006	January 24 - 25, 2006

**RESOLVED FURTHER**, That the USAC Board of Directors hereby revises the previously established schedule beginning with the July 2004 quarterly meetings to the following schedule:

<b>Audit Committee Part I and Executive Committee</b>	<b>Programmatic Committees and Board of Directors</b>
July 15, 2004	July 20 - 21, 2004
October 14, 2004	October 19 - 20, 2004
January 20, 2005	January 25 - 26, 2005

Board member Ms. Hughes joined the meeting during discussion of the next item.

- a6. Approval of 2004 Annual and 2<sup>nd</sup> Quarter USAC Consolidated and Common Budgets.** Mr. Carmichael introduced this item. Dr. Bryant noted that the annual budget shows a major increase mainly due to audits and process changes in the Schools and Libraries Support Mechanism, but that the audits and changes are necessary in order to maintain the integrity of the program. She encouraged the Board to continue to look at ways to simplify the mechanisms. Mr. Gumper reminded the Board that the budget does not include contingencies for potential program changes that USAC may be directed to implement by the FCC because it is too difficult to assess the work that such changes might entail and that such contingencies added in previous years were imprecise estimates at best. On behalf of the Board, he requested that USAC's General Counsel continue to keep the Board and appropriate Committees timely apprised of any potential major program changes and requested USAC staff to continue to assess the possible budgetary impact of each.

In response to a question regarding the proposed Director of Strategic Planning position contained in the budget, Ms. Parrino stated that USAC staff and she believe that USAC would greatly benefit from one position within the company implementing, tracking, coordinating, and managing USAC's many projects and contracts rather than dividing this task among many positions. She further stated that she believes that there are enough USAC projects and contracts to justify this full-time position. Mr. Gumper suggested waiting to fill the proposed Director of Strategic Planning position until after the new CEO has an opportunity to review USAC's organizational structure. The Board agreed with Mr. Gumper's recommendation, and suggested that the new CEO might want to consider either an Ad Hoc Committee of the Board or hiring an outside consultant to help with the review of the organizational structure.

On a motion duly made and seconded, the Board adopted the following resolutions:

**RESOLVED**, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 2<sup>nd</sup> Quarter 2004 USAC common budget of \$3,750,300; and

**RESOLVED FURTHER,** That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 2004 annual USAC common budget of \$14,659,300; and

**RESOLVED FURTHER,** That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 2<sup>nd</sup> Quarter 2004 USAC consolidated budget of \$17,797,800; and

**RESOLVED FURTHER,** That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 2004 annual USAC consolidated budget of \$70,575,600.

- a7. Approval of 2<sup>nd</sup> Quarter 2004 Revenue Projections and Resolutions for the March 2, 2004, FCC Filing.** Mr. Carmichael introduced this item. Mr. Gumper noted that due to some very large negative prior period adjustments last quarter, and depending on the contribution base numbers submitted by carriers, the contribution factor might approach or exceed 10 percent this quarter. He explained the various factors that drive the contribution base and confirmed that there are penalties to carriers who delay or underestimate their revenue projections. The Board cautioned USAC staff to be prepared to clearly convey to the FCC the reasons for the numbers provided in USAC's quarterly filings and the reasons for any increase in the contribution factor for this quarter should the FCC propose a significantly increased factor.

The Board **DIRECTED** USAC staff to work with the FCC on assessing different methods to address the USF cash balance situation and assessing whether there are methods that could be used to normalize the major fluctuations in prior period adjustments to help stabilize the contribution factor.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED,** That the USAC Board of Directors, having reviewed at its meeting on January 27, 2004, a summary of the current status of the March 2, 2004, FCC filing requirements, accepts the recommendation of the USAC Executive Committee to authorize staff to proceed with the required March 2, 2004, filing to the FCC on behalf of USAC using a preliminary estimate of \$18,772.151 million for the Universal Service Fund contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

Board member Mr. Baker left the meeting at this point.

- a8. Approval of Course of Action Regarding Performance of FCC Form 499 Data Collection Operations - Confidential & Proprietary - Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of this matter, which relates to USAC's *procurement strategy and*

*contract negotiations*, and public disclosure of this matter would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund. Moreover, certain matters to be discussed implicate the *attorney-client privilege* and, therefore, should not be discussed in open session.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that discussion of the proposed course of action regarding the performance of FCC Form 499 Data Collection function shall be conducted in **Executive Session**.

See **Executive Session** for a report of this discussion and action taken.

Board member Mr. Baker re-joined the meeting at this point.

- a9. Annual Review and Approval of Revised Audit Committee Charter and Audit Committee Meeting Planner.** Mr. Scott introduced this item. There was no further discussion.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors, having reviewed the proposed changes to the Audit Committee Charter and the Audit Committee Meeting Planner as presented by the USAC Internal Audit Division, accepts the recommendation of the USAC Audit Committee and approves the proposed changes.

- a10. Approval of Revisions to USAC Collection Procedures and Reporting Requirements Concerning Bankrupt Universal Service Fund Contributors - Confidential & Proprietary - Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that this matter be discussed in **Executive Session** because discussion of this issue centers on matters subject to the *attorney-client privilege* upon which USAC has sought the advice of counsel. Discussion of these matters in open session would compromise the continued applicability of the attorney-client privilege.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that discussion of matters related to *USAC's Collection Procedures and Reporting Requirements Concerning Bankrupt Universal Service Contributors* shall be conducted in **Executive Session**.

See **Executive Session** for a report of this discussion and action taken.

- a11. Selection and Election of the USAC CEO.** Mr. Gumper introduced this item and said that this issue need no longer be discussed in **Executive Session** because the FCC Chairman has appointed the new CEO (Ms. Lisa Zaina), her appointment has been publicly announced, and she has signed a contract with USAC.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors selects **Ms. Lisa M. Zaina** as the Chief Executive Officer of USAC and elects **Ms. Lisa M. Zaina** to the USAC Board of Directors and as the Chief Executive Officer of USAC, effective March 1, 2004.

**a12. USAC CEO Transitional Plan.**

**\_01. Temporary Grant of Executive Authority to Frank Gumper, Chairman of the USAC Board of Directors.** Mr. Gumper explained that there would be a one-month gap between when the current USAC CEO leaves and the new CEO begins on March 1, 2004. Mr. Gumper and other Board members considered the appointment of an interim CEO, but determined that it would be less complicated to provide the Chairman of the Board, on a limited and temporary basis, the necessary approval authorities of the CEO to maintain USAC operations during this one-month gap. Mr. Gumper indicated that he reviewed this option with his employer, Verizon, and that they are agreeable to this arrangement. Mr. Gumper said he would not be paid for providing services to USAC but would be requesting approval from the Board for reimbursement of travel expenses to travel to USAC once a week during the month of February to attend to USAC business (see next agenda item #aBOD12\_02). He said that the resolutions before the Board were prepared by outside counsel and reviewed by USAC's General Counsel. He reported that the USAC Executive Committee approved this plan of transition at its quarterly meeting on January 22, 2004. Mr. Gumper noted that, as he is the Chairman of the Board, he would be extremely sensitive to any issues that may raise any apparent or actual conflict of interest and would discuss any such matters with the General Counsel as well as bring them to the Board if necessary.

On a motion duly made and seconded, the Board adopted the following resolutions; Mr. Gumper abstained:

**WHEREAS**, the USAC Board of Directors has granted certain executive authority to the Chief Executive Officer in resolutions dated January 25 & 26, 1999; July 24, 2001; and October 23, 2001, among others; and

**WHEREAS**, the office of Chief Executive Officer will be vacant upon the resignation of Cheryl L. Parrino on January 31, 2004, until the appointment of Lisa M. Zaina becomes effective on March 1, 2004, pursuant to her approval by the Chairman of the FCC; and

**WHEREAS**, this Board seeks to temporarily vest certain executive authority in Frank Gumper, Chairman of the Board, during the interim period that the office of Chief Executive Officer will be vacant;

**NOW, THEREFORE, IT IS RESOLVED**, that the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to resolve that during the period beginning February 1, 2004, and ending February 29, 2004, the Chairman of the Board, in addition to any other responsibilities associated with that office:

Shall be primarily responsible for the implementation of the direction of the Board of Directors and shall have authority over the general management and direction of the business and operations of the Corporation, subject to the authority of the Board of Directors;

May sign and execute in the name of the Corporation contracts, share certificates, deeds, mortgages, bonds, and other instruments, except only in cases where the signing and the execution thereof shall be expressly reserved to the Board of Directors or delegated by the Board of Directors or the By-laws of the Corporation to some other officer or agent of the Corporation or shall be required by law otherwise to be signed or executed;

May, pursuant to authority previously granted to the Chief Executive Officer by the Board of Directors, designate those officers, employees, or agents of the Corporation who may be authorized from time to time to sign or otherwise lawfully endorse any and all checks, drafts, orders, and electronic transfers against any bank accounts established by the Corporation;

May approve expenses on behalf of the Corporation for all contracts and employee expenses in amounts prescribed by the revised schedule of authorizations currently approved by the Board of Directors with respect to contracts and employee expenses;

Shall manage and supervise all the personnel of the Corporation and otherwise shall discharge and perform all duties usually and customarily incident to the office of chief executive officer and president of a not-for-profit corporation and such other duties as from time to time may be assigned by the Board of Directors; and

Shall recognize and be sensitive to actual, potential, and/or perceived conflict of interest issues, not participate in any decisions or seek or obtain any information that could represent an actual, potential, and/or perceived conflict of interest, pursuant to the *Statement of Ethical Conduct* previously adopted by this Board of Directors, and shall consult with counsel and/or the Board of Directors regarding actual, potential, and/or perceived conflict of interest issues should circumstances warrant; and, it is

**FURTHER RESOLVED**, That the responsibilities set forth in the resolution immediately above shall be deemed part of the responsibilities of the office of the Chairman of the Board during the term described in such resolution.

**02. Approval for Reimbursing a Board Member to Attend an Event Other Than a USAC Board or Committee Meeting or Event.** Mr. Gumper introduced this item noting that in this item he is requesting approval for reimbursement of travel to Washington, DC once a week during the month of February to attend to USAC business as outlined in agenda item #aBOD12\_01 above.

On a motion duly made and seconded, the Board adopted the following resolution; Mr. Gumper abstained:

**RESOLVED**, That in accordance with the *Procedures for Requesting Approval and Reimbursing a Member of the Board of Directors for Expenses Incurred in Conducting USAC Business other than Board of Directors Meetings* approved by the USAC Board

of Directors, the USAC Board of Directors authorizes the Corporation to reimburse the USAC Chairman of the Board, Mr. Frank Gumper, for travel expenses incurred by him to visit the USAC Washington, DC office once a week during the month of February 2004 in order to attend to USAC business.

**a13. Board Member Filing of Annual Disclosure of Corporate or Entity Affiliations.**

Ms. Parrino introduced this item. The Board requested that the form be sent to them electronically as well. There was no further discussion.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors directs that each Board member file USAC Form #3012 - Director Affiliation Disclosure Form - with the USAC General Counsel by February 27, 2004.

**a14. Miscellaneous.**

**\_01. Solicit Ideas for April 2004 Board Agenda.** Mr. Gumper reminded Board members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him between quarterly meetings.

**Information Items**

- i1. Report on Legislative and Media Activity - Confidential & Proprietary - *Executive Session Recommended.*** Mr. Gumper informed the Board that USAC staff would provide a report on the proposed GAO audit and the ongoing oversight investigation of the Schools and Libraries Support Mechanism. He stated that in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in ***Executive Session***, he recommended that discussion of these items be conducted in ***Executive Session*** because discussion of specific audit plans, internal controls, and /or confidential company data would constitute a "[d]iscussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session would result in disclosure of confidential techniques and procedures that would compromise program integrity." No other matters were discussed in open session on this issue.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that discussion of matters related to the legislative affairs and audits of the Schools and Libraries Support Mechanism shall be conducted in ***Executive Session***.

See ***Executive Session*** for a report of this discussion.

- i2. Assistant Treasurer's Report.** Mr. Carmichael clarified that the cash balance of the Universal Service Fund (USF or Fund) was close to \$2,850 million on December 31, 2003, increasing over the \$2,750 million as of November 30, 2003, as indicated in the meeting materials. He reported that the interest on the USF continues to increase partially due to the better investment strategies implemented per Board direction, which includes investing through USAC's newly contracted investment firm, Evergreen Investments.

Mr. Carmichael reported that all financial functions that were previously contracted to outside vendors have now been moved in-house.

Mr. Gumper explained that USAC usually has a large amount of cash available at any given time for the most part due to the lag between collections and disbursements, as well as the fact that all the funds collected for the Schools and Libraries Support Mechanism have not been totally used up in each funding year, hence requiring some sort of roll-over methodology. He noted that the FCC has recently directed that from now on unused Schools and Libraries Support Mechanism funds from each funding year would be rolled over to the next year to increase commitments, not decrease collections-in other words, the roll-over of any of these unused funds would not affect USF demand, and by extension the contribution factor.

At this point, Mr. Gumper stated that he had information to share regarding conversations between USAC staff and the FCC on the matter of the Fund balance. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, he recommended that this matter be discussed in **Executive Session** because discussion of this issue centers on *pre-decisional matters* before the FCC to which USAC is privy, and discussion of such matters in open session would undermine the agency's deliberative process or could result in the disclosure of an agency's conclusions or rationales before the agency has formally decided the matter.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that discussion of information regarding conversations between USAC staff and the FCC on the matter of the Universal Service Fund balance shall be conducted in **Executive Session**.

See **Executive Session** for a report of this discussion.

In response to an inquiry about the 4Q2003 billing under-run caused primarily by the correction of a billing error related to a large carrier that occurred in 3Q2003, Mr. Carmichael explained that this carrier revised their Form 499 four different times and for an undetermined reason, USAC's billing system utilized one of the first three submissions rather than the last corrected submission. He said that USAC staff immediately caught the error and corrected it and analyzed the situation to determine a cause. Mr. Carmichael concluded that something like this has not happened before or since, and that with new controls in place was unlikely to happen again. In response to an inquiry, Mr. Gumper said the reason that carriers cannot be more accurate with their revenue projections is that by its very nature, forecasting revenues is difficult. However, he reminded the Board that the FCC rules impose penalties on carriers who delay or underestimate their revenue projections.

Finally, Mr. Carmichael confirmed that USAC staff would investigate aligning the Fund's fiscal year (not USAC's fiscal year) with the FCC's fiscal year now that the FCC has directed USAC to apply government accounting standards for federal agencies to the Fund.

- i3. Regulatory Report.** Mr. Barash reported that there are several noteworthy FCC proceedings in progress, a number of which could have significant affects on all aspects of USAC or the Universal Service Fund. He reviewed proceedings regarding the contribution methodology, new accounting system for the USF, portability of support, High Cost Support Mechanism orders (*RTF Order, MAG Order, ETC Order, High Cost Model*), expansion of support in the Low Income program, the definition of "rural" for purposes of administering the Rural Health Care Support Mechanism, the discount percentage for internal connections for the Schools and Libraries Support Mechanism, and appeals of the Schools and Libraries Support Mechanism, decisions on any of which could affect future rules for the program and USAC's administration of the support mechanisms.
- i4. Report on Accounts Receivable Delinquent Over 30 Days and on Collection Efforts.** For information only. No discussion held.
- i5. Disposition of Administrator Appeals by USAC Staff.** For information only. No discussion held.
- i6. Report on Pending Litigation and Bankruptcy Matters.** For information only. No discussion held.
- i7. USAC Timeline and Key Dates.** For information only. No discussion held.
- i8. Miscellaneous.**

**01. Brief Description of the Nature of the Universal Service Fund.**

Mr. Gumper informed the Board that USAC has requested that the FCC endorse a description of the nature of Universal Service Fund (USF or Fund) and the FCC has now approved such a description. He confirmed that, based on binding legal precedent, even though the USF contribution requirement is not a tax, the FCC views the USF as "federal funds." This determination is part of the basis for the requirement that USAC follow generally accepted accounting principles for federal agencies (Federal GAAP) in administering the Fund.

**AUDIT Committee:**

- i9. Status Report on USAC Audits.** For information only. No discussion held.
- i10. Status Report on Actions Taken on Final Audits.** For information only. No discussion held.
- i11. Review of the 2004 USAC Internal Audit Plan - Confidential & Proprietary - Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive**

**Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of specific audit plans, internal controls, and /or confidential company data would constitute a "[d]iscussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session would result in disclosure of confidential techniques and procedures that would compromise program integrity."

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that discussion of the proposed plan for operational and financial audits of USAC for inclusion in the 2004 USAC Internal Audit Plan shall be conducted in **Executive Session**.

See **Executive Session** for a report of this discussion.

- i12. Internal Audit Division Report on the 2003 Internal Audit Plan.** Mr. Scott noted that several of the planned operational audits for 2003 were not completed due to the redistribution of resources toward additional Schools and Libraries Support Mechanism beneficiary audits. He reported that all incomplete planned audits from 2003 would be carried over to the 2004 Internal Audit Plan. Mr. Scott reviewed data comparing the number of KPMG audits completed with completed internal audits as well as the number that were compliant and the percentage of dollar amounts compared with the number of exceptions.

In response to a previous Board request for data on whether Native American schools are being disproportionately targeted for audits, Mr. Scott provided data on the number of insular versus non-insular schools that have been audited. While the data presented does not support the premise, Ms. Parrino pointed out that since USAC does not collect information on whether a school is Native American or not, USAC must rely on a listing from the Department of Interior, Bureau of Indian Affairs as to which schools are Native American. The consensus of the Board was that this information needed further clarification and **DIRECTED** USAC staff to revise the data so that it was easier to interpret.

#### **Programmatic Committees:**

- i13. Review of Annual 2004 and 2<sup>nd</sup> Quarter 2004 Programmatic Budgets.** For information only. No discussion held.
- i14. Review of 2<sup>nd</sup> Quarter 2004 High Cost, Low Income, Rural Health Care, and Schools and Libraries Support Mechanisms Projections for the January 30, 2004, Demand Estimate Filing with the FCC.** For information only. No discussion held.

At 10:58 a.m., on a motion duly made and seconded, the Board voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above. The Chair then recessed the meeting. At the call of the Chair, the Board reconvened in **Executive Session** at 11:06 a.m. Ms. Howard called the roll at the request of the Chair.

<b>Seventeen of the nineteen members were present, representing a quorum:</b>	
Askin, Jonathan	Hess, Kevin
Baker, Dave	Hughes, Alison
Bryant, Anne	Jackson, Jimmy - Secretary
Buller, Karen	Jortner, Wayne - Treasurer
Campbell, Anne - <i>by telephone</i>	Lubin, Joel - Vice Chair
Christensen, Doug - <i>by telephone</i>	Parrino, Cheryl - CEO
Cornell, Diane	Sanford, Jo Anne - <i>by telephone</i>
Duff, Bridget	Talbott, Dr. Brian
Gumper, Frank - Chair	
<b>Two members joined the meeting in progress:</b>	
Eichler, Ed	Sanders, Dr. Jay
<b>Other Officers of the Corporation present:</b>	
Barash, D. Scott - Vice President and General Counsel	
Blackwell, Mel - VP, External Communications and Rural Health Care Division	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George - VP, Schools and Libraries Division	
Scott, Wayne - VP, Internal Audit Division	
<b>Others present for the meeting:</b>	
<b>Name</b>	<b>Company</b>
Carroll, Kristy	USAC
Cheng, Anita	FCC
Howard, Cathy	USAC
Krzos, Joe	USAC
Miller, Linda	USAC

Name	Company
Mitchell, Jeff	USAC
Trew, Anne Marie	USAC

### Executive Session

- a8. Approval of Course of Action Regarding Performance of FCC Form 499 Data Collection Operations - Confidential & Proprietary.** Mr. Carmichael introduced and briefly discussed this item.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED,** That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee and approves the course of action proposed by USAC management regarding the performance of FCC Form 499 Data Collection Agent functions beginning on January 1, 2005.

- a10. Approval of Revisions to USAC Collection Procedures and Reporting Requirements Concerning Bankrupt Universal Service Fund Contributors - Confidential & Proprietary.** Mr. Barash introduced this item and explained that the proposed resolutions clarify both USAC's treatment of claims in bankruptcy and USAC's treatment of sales of assets in assessing Universal Service Fund contribution requirements.

On a motion duly made and seconded, the Board adopted the following resolutions:

**RESOLVED,** That the USAC Board of Directors accepts the recommendation made by the USAC Executive Committee to adopt the following bankruptcy collection procedures, which are consistent with FCC regulations and current USAC administrative practice in that claims for unpaid contribution obligations, while calculated quarterly, arise monthly on the 15<sup>th</sup> of the month:

*USAC Proof of Claim Calculation:* Where the date on which a contributor's monthly contribution obligation arises precedes the date of such debtor-contributor's bankruptcy filing, USAC will assert a pre-petition claim for contribution obligations outstanding for the period from that date up through the date of the contributor's bankruptcy filing and, similarly, assert an administrative expense priority claim for any unpaid contribution obligations arising thereafter; and

*Bankruptcy Account/Receivable (A/R) Transfer:* USAC shall issue a provisional credit to a debtor-contributor's account, equal to the amount of contribution obligations outstanding as of such contributor's bankruptcy filing, in order to remove the pre-petition balance from the debtor-contributor's invoice and indicate thereafter solely the post-petition contribution obligations to be paid during the contributor's bankruptcy case. This shall be referred to as the "Bankruptcy A/R Transfer." The amount of the pre-petition balance will remain on USAC's general ledger bankruptcy A/R; and

*Late Payment Fees:* USAC shall not assess Late Payment Fees against a debtor-contributor's pre-petition account balance after the bankruptcy petition filing date during the pendency of that contributor's bankruptcy case. USAC will include in its proof of pre-petition claim all unpaid Late Payment Fees assessed up through and including the date of such contributor's bankruptcy filing. With respect to a debtor-

contributor's unpaid post-petition contribution obligations, USAC will assess against that debtor-contributor all applicable Late Payment Fees and will pursue collection of all such unpaid amounts as part of USAC's post-petition administrative priority expense claim. USAC will not adjust Late Payment Fees to reflect any revision by a debtor-contributor of the amount of a debtor-contributor's underlying USF contribution obligation; and

**FURTHER RESOLVED**, That the USAC Board of Directors accepts the recommendation made by the USAC Executive Committee to adopt the USAC document titled *Reporting Procedures for Contributors Involved in the Sale or Other Disposition of Assets Subject to Universal Service Assessment*, and to direct USAC Staff to implement the procedures set forth in such document; and

**FURTHER RESOLVED**, That the USAC Board of Directors accepts the recommendation made by the Executive Committee to maintain the current direction of strictly enforcing revenue reporting deadlines, including the prohibition against accepting from a contributor or debtor-contributor any post-deadline downward revisions to an FCC Form 499-A or Form 499-Q Universal Service Worksheets, unless otherwise directed by the FCC or a court of competent jurisdiction; and

**FURTHER RESOLVED**, That the USAC Board of Directors accepts the recommendation made by the Executive Committee, that consistent with previous direction, USAC staff shall process, timely-filed revisions to an FCC Form 499-A or Form 499-Q in the first month of the quarter immediately following such filing and, for non-debtor contributors, applying the resulting adjustments/credits in equal installments across the three months of the current quarter and, for debtor-contributors, applying the resulting adjustments/credits to the original invoiced period to which the revised revenue relates and allocating such adjustments/credits proportionally across the pre-petition and post-petition periods.

**i1. Report on Legislative and Media Activity - Confidential & Proprietary.**

Mr. Blackwell reported on the continuing investigation of the Schools and Libraries Support Mechanism being conducted by the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight. Ms. Parrino reported on the status of the review of Schools and Libraries Support Mechanism activities by the United States General Accounting Office.

**i2. Assistant Treasurer's Report - Confidential & Proprietary.** Mr. Gumper shared information regarding conversations between USAC staff and the FCC on the matter of the Universal Service Fund balance.

**i11. Review of the 2004 USAC Internal Audit Plan - Confidential & Proprietary.**

Mr. Scott stated that this plan consists of all the audits of USAC and its support mechanisms as approved by the Executive and Audit Committees and each programmatic Committee at their January 2004 quarterly meetings. Mr. Gumper reminded the Board that the \$3 million necessary for fiscal year 2004 for audits of the Universal Service Fund beneficiaries to be conducted by the FCC Inspector General must now come from the USAC budget since both the House and the Senate denied the budget request.

**i8. Miscellaneous.**

**\_02. Review of Consulting Contract with Ms. Cheryl L. Parrino.** Mr. Gumper informed the Board that as discussed with the Search and Executive Committees, a consulting contract between USAC and Ms. Parrino for her consulting services during the transition to the new CEO would be signed soon.

The Board adjourned from **Executive Session** and reconvened in open session at 11:58 a.m. to report the discussions and actions of the Committee during **Executive Session**.

Mr. Gumper announced that he had one more action item for the Board to address.

**Action Items**

**a14. Miscellaneous.**

**\_02. Adoption of Resolution to Honor Ms. Cheryl Parrino.** Mr. Gumper reminded the Board that this would be Ms. Parrino's last meeting with the USAC Board and that the Board likes to honor departing Board members, preferably before they leave. Together the Board expressed their appreciation to Ms. Parrino and gave her a standing ovation.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors hereby expresses its sincere and profound appreciation to Ms. Cheryl Parrino for her service on the Board of Directors for the Universal Service Administrative Company as well as the CEO since June 1998 and wishes her the best in her future endeavors.

There being no further business, Mr. Gumper adjourned the meeting at 12:01 p.m.

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Robert W. Haga  
Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**BOARD OF DIRECTORS MEETING**

**March 10, 2004**

**MINUTES**

The Board of Directors of the Universal Service Administrative Company (USAC) took action on the following resolution via email by Ms. Cathy Howard, USAC Executive Assistant to the CEO. The Directors submitted signed ballots, which are included as an attachment to these minutes.

- a1. Approval for Reimbursing a Board Member to Attend an Event Other Than a USAC Board or Committee Meeting or Event.** The USAC Board of Directors approved the following resolution through means of signed ballots:

**RESOLVED**, That in accordance with the *Procedures for Requesting Approval and Reimbursing a Member of the Board of Directors for Expenses Incurred in Conducting USAC Business other than Board of Directors Meetings* approved by the USAC Board of Directors, the USAC Board of Directors authorizes the Corporation to reimburse the following members of the USAC Board of Directors for expenses incurred to travel from Washington, DC to Newark, New Jersey April 20, 21, and 22, 2004, following the April quarterly meetings, to review the Schools and Libraries Support Mechanism operations being performed for USAC at NECA Services Inc. in Whippany, New Jersey, and to consider improvements to current outreach efforts:

1. Dave Baker – S&L Committee member
2. Anne Bryant – S&L Committee Vice Chair
3. Karen Buller – S&L Committee observer
4. Anne Campbell – S&L Committee member
5. Bridget Duff – S&L Committee observer
6. Ed Eichler – S&L Committee observer
7. Frank Gumper – USAC Chair and S&L Committee observer
8. Jimmy Jackson – S&L Committee member
9. Joel Lubin – USAC Board Vice Chair
10. Brian Talbott – S&L Committee Chair

Fifteen of the nineteen directors submitted signed ballots by fax, representing a quorum. The vote count was as follows: YES = 15 (Mr. Askin, Mr. Baker, Dr. Bryant, Ms. Campbell, Mr. Christensen, Ms. Cornell, Ms. Duff, Mr. Eichler, Mr. Hess, Ms. Hughes, Mr. Jackson, Mr. Jortner, Dr. Sanders, Ms. Sanford, and Dr. Talbott); NO = 0. Ms. Buller, Mr. Gumper, Mr. Lubin, and Ms. Zaina did not submit a ballot.

There was no further action.

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Robert W. Haga  
Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY****BOARD OF DIRECTORS MEETING**

April 20, 2004

**MINUTES**

The quarterly meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the USAC office in Washington, DC on Tuesday, April 20, 2004. Mr. Gumper, Chair of the Board, called the meeting to order at 8:30 a.m. Eastern Time. Ms. Howard, Executive Assistant to the CEO, called the roll.

<b>Sixteen of the nineteen members were present, representing a quorum::</b>	
Bryant, Anne	Hess, Kevin
Buller, Karen	Hughes, Alison
Campbell, Anne	Jackson, Jimmy – Secretary
Christensen, Doug	Jortner, Wayne – Treasurer
Cornell, Diane	Lubin, Joel – Vice Chair– <i>by telephone</i>
Duff, Bridget	Sanford, Jo Anne
Eichler, Ed	Talbott, Dr. Brian
Gumper, Frank – Chair	Zaina, Lisa – CEO
<b>Two members joined the meeting in progress:</b>	
Askin, Jonathan	Baker, Dave
<b>One member was absent:</b>	
Sanders, Jay	
<b>Other Officers of the Corporation present:</b>	
Barash, D. Scott - Vice President and General Counsel	
Blackwell, Mel - VP, External Communications and Rural Health Care Division	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George - VP, Schools and Libraries Division	
Scott, Wayne - VP, Internal Audit Division	
<b>Others present for the meeting:</b>	
<b>Name</b>	<b>Company</b>
Cullen, Kathy	Telcordia
Divak, Helen	Telcordia
Gallant, Pam	USAC
Gill, Chuck	NECA Services, Inc.
Hegmann, Bill	NECA
Howard, Cathy	USAC
Lamoureux, Renee	USAC
Long, Deborah	NECA
Miller, Linda	USAC

Name	Company
Nadel, Mark	FCC

## ACTION ITEMS

The quarterly meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the USAC office in Washington, DC on Tuesday, April 20, 2004. Mr. Gumper, Chair of the Board, called the meeting to order at 8:30 a.m. Eastern Time. Ms. Howard, Executive Assistant to the CEO, called the roll.

<b>Sixteen of the nineteen members were present, representing a quorum::</b>	
Bryant, Anne	Hess, Kevin
Buller, Karen	Hughes, Alison
Campbell, Anne	Jackson, Jimmy – Secretary
Christensen, Doug	Jortner, Wayne – Treasurer
Cornell, Diane	Lubin, Joel – Vice Chair- <i>by telephone</i>
Duff, Bridget	Sanford, Jo Anne
Eichler, Ed	Talbott, Dr. Brian
Gumper, Frank – Chair	Zaina, Lisa – CEO
<b>Two members joined the meeting in progress:</b>	
Askin, Jonathan	Baker, Dave
<b>One member was absent:</b>	
Sanders, Jay	
<b>Other Officers of the Corporation present:</b>	
Barash, D. Scott - Vice President and General Counsel	
Blackwell, Mel - VP, External Communications and Rural Health Care Division	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George - VP, Schools and Libraries Division	
Scott, Wayne - VP, Internal Audit Division	
<b>Others present for the meeting:</b>	
Name	Company
Cullen, Kathy	Telcordia
Divak, Helen	Telcordia
Gallant, Pam	USAC
Gill, Chuck	NECA Services, Inc.
Hegmann, Bill	NECA
Howard, Cathy	USAC
Lamoureux, Renee	USAC
Long, Deborah	NECA
Miller, Linda	USAC
Nadel, Mark	FCC

## ACTION ITEMS:

**a1. Approval of the Minutes.** On a motion duly made and seconded, the Board approved the meeting minutes as distributed of Tuesday, January 13, 2004; Tuesday, January 27, 2004; and March 10, 2004. Ms. Hughes and Ms. Zaina abstained from this vote, as they were not present at some of the respective meetings.

Board member Mr. Askin joined the meeting during discussion of the next item.

**a2. Reports from the Committee Chairs.** Each of the Chairs of the USAC programmatic Committees reported on issues discussed and action taken by each Committee since the January 2004 quarterly meetings: Mr. Eichler reported on the Audit Committee meetings of April 15 and 19, 2004; Mr. Gumper reported on the Executive Committee meeting of April 15, 2004; Mr. Hess reported on the High Cost & Low Income Committee meeting of April 19, 2004; Mr. Jackson (on behalf of Dr. Sanders) reported on the Rural Health Care Committee meeting of January 26, 2004; and Dr. Talbott reported on the Schools & Libraries Committee meetings of February 23 and April 13 and 19, 2004 .

The minutes of each Committee meeting provide a full accounting of the discussions and actions taken by the Committees.

**a3. Approval of Changing the Universal Service Fund Fiscal Year to the Federal Government Fiscal Year.** Mr. Carmichael introduced this item. He explained that changing the Universal Service Fund (USF or Fund) fiscal year would not require any administrative or financial changes: the main reason to change the USF fiscal year is to line up the Fund with federal government accounting standards and the FCC's fiscal year for purposes of the FCC annual financial audit. He noted that USAC's fiscal year would not change, as USAC itself is not a government agency, and that the FCC financial staff recognizes and supports the importance of maintaining the distinction between USAC as a corporation and the USF itself, which rolls into the FCC's financial statements.

On a motion duly made and seconded, the Board adopted the following resolutions:

**RESOLVED**, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee and directs that the fiscal year for the Universal Service Fund shall end on September 30, effective September 30, 2004, in order to conform to the federal government fiscal year end.

Board member Mr. Baker joined the meeting during the discussion of the next item.

**a4. Approval of Revised Engagement Arrangements with Mintz, Levin, Cohn, Ferris, Glovsky & Popeo, PC.** Mr. Barash introduced this item. He discussed the fact that the amount of legal work performed by its longtime primary outside counsel, Mintz, Levin, Cohn, Ferris, Glovsky & Popeo, PC has increased significantly over the last three years as the scope of USAC's legal affairs has broadened. This increased work prompted USAC to reexamine the terms and conditions of its engagement with the firm and to renegotiate certain of those terms. He indicated that the new proposed engagement letter more fully defines the terms and conditions of the engagement and includes a volume discount negotiated by USAC. Mr. Barash noted that monetary

recoveries associated with USAC's bankruptcy work have been significant. In response to an inquiry, Mr. Barash explained that at this point it is generally more effective and cost-efficient to continue to use outside counsel for bankruptcy and litigation matters in local courts around the country rather than hire additional in-house attorneys for numerous reasons, including the fact that outside counsel is better equipped to manage the day-to-day aspects of USAC's extensive bankruptcy litigation practice and that many of the bankruptcy cases in which USAC must participate are in geographical areas in which Mintz, Levin and USAC's other outside counsel maintain offices. Mr. Barash also noted that local counsel is required in most jurisdictions, which necessitates retaining outside law firms for most contested bankruptcy matters in any event.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee and approves the revised terms and conditions of USAC's engagement of the law firm Mintz, Levin, Cohn, Ferris, Glovsky, & Popeo PC.

- a5. Approval of Course of Action and Request for Budgetary Authority Concerning an Investigative Audit Matter – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that this item be discussed in **Executive Session** because discussion this matter relates to specific internal controls, and/or confidential company data that would constitute a discussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session would result in disclosure of confidential techniques and procedures that would compromise program integrity.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that discussion of the proposed course of action regarding an investigative audit matter and request for budget authority shall be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion and action taken on this item.

- a6. Approval of 3rd Quarter 2004 USAC Common and Consolidated and Revised 2004 Annual Common and Consolidated Budgets.** Mr. Carmichael introduced this item. Following a request by a Board member for basic budget training for the Board, Mr. Carmichael agreed to circulate a draft agenda for such training prior to the next Board of Directors meeting. Mr. Gumper requested USAC staff to update the benchmarking study showing how much each Universal Service Fund "application" or "grant" costs to process and comparing this number against other grant-making agencies to the extent that such a comparison is practical.

On a motion duly made and seconded, the Committee adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 3rd Quarter 2004 USAC common

budget of \$3,822,200; and

**RESOLVED FURTHER**, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 2004 annual USAC common budget of \$14,801,400; and

**RESOLVED FURTHER**, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 3rd Quarter 2004 USAC consolidated budget of \$19,210,700; and

**RESOLVED FURTHER**, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 2004 annual USAC consolidated budget of \$73,710,100.

- a7. Approval of 3rd Quarter 2004 Revenue Projections and Resolutions for the June 1, 2004, FCC Filing.** Mr. Carmichael introduced this item. There was no further discussion.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors, having reviewed at its meeting on April 20, 2004, a summary of the current status of the June 1, 2004, FCC filing requirements, accepts the recommendation of the USAC Executive Committee to authorize staff to proceed with the required June 1, 2004, filing to the FCC on behalf of USAC using a preliminary estimate of \$18,861.616 million for the Universal Service Fund contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

- a8. Revisit Approval of July 2004 – January 2006 Board of Directors Quarterly Meeting Schedule.** At the request of two Board members, the Board revisited the issue of the quarterly Board and Committee meetings schedule for July 2004 – January 2006 as approved at the January 2004 quarterly Board meeting. The Board determined that a majority of the members preferred the Monday/Tuesday schedule or were indifferent.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors adopts the following revised July 2004 through January 2006 Monday/Tuesday schedule of quarterly meetings of the Board of Directors and Committees:

<b>Audit Committee Part I &amp; Executive Committee</b>	<b>Programmatic Committees &amp; Board of Directors</b>
July 15, 2004	July 19 – 20, 2004
October 14, 2004	October 18 – 19, 2004
January 20, 2005	January 24 – 25, 2005
April 14, 2005	April 18 - 19, 2005
July 14, 2005	July 18 - 19, 2005
October 20, 2005	October 24 - 25, 2005

**a9. Miscellaneous.**

- \_01. Solicit Ideas for April 2004 Board Agenda.** Mr. Gumper reminded Board members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him or Ms. Zaina between quarterly meetings.
- \_02. Update from Members of the NECA Board of Directors on Recent Events Involving NECA and NECA Services, Inc. – Confidential & Proprietary - *Executive Session Recommended.*** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that discussion of matters regarding corporate governance and corporate fiduciary duties be conducted in *Executive Session*. The Board of Directors has sought legal advice concerning certain corporate governance issues and discussion of these matters in *Executive Session* is required in order to ensure the continued applicability of the *attorney-client privilege*. In addition, Mr. Barash noted that certain matters relate to the employment situation of individuals, and *Executive Session* is warranted on privacy grounds. *Executive Session* is also warranted because the matters discussed relate to USAC's procurement activities, and discussion of these matters in open session would compromise USAC's business interests.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that an update from members of the NECA Board of Directors on recent events involving NECA and NECA Services, Inc. shall be conducted in Executive Session.

See *Executive Session* for a report of this discussion.

- \_03. Report on Application of the Improper Payment Act to the Universal Service Support Mechanisms – Confidential & Proprietary - *Executive Session Recommended.*** Mr. Gumper stated that Ms. Zaina had information to share regarding pre-decisional conversations between USAC staff and the FCC on the matter of the Improper Payment Act. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Gumper recommended that this matter be discussed in *Executive Session* because discussion of this issue centers on *pre-decisional matters* before the FCC to which USAC is privy, and discussion of such matters in open session would undermine the agency's deliberative process or could result in the disclosure of an agency's conclusions or rationales before the agency has formally decided the matter.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that discussion of information regarding conversations between USAC staff and the FCC on the matter of the Improper Payment Act shall be conducted in *Executive Session*.

See **Executive Session** for a report of this discussion.

#### Information Items

- i1. **Assistant Treasurer's Report.** For information only. No discussion held.
- i2. **Status of Financial Services Operations Transition.** Ms. Bryant commended USAC staff on its work related to the transition of USAC's financial operations from an outsourcing arrangement to an in-house operation. Mr. Gumper explained the history behind the decision to transition these operations in-house.
- i3. **Report on Transition of the Universal Service Fund to Government Accounting Standards.** Mr. Carmichael provided a status report on the transition of the Universal Service Fund (USF or Fund) from Generally Accepted Accounting Principles (GAAP) to Federal Generally Accepted Accounting Principles (FGAAP), as required by the Federal Communications Commission (FCC) order. Mr. Carmichael indicated that USAC expects to meet the imposed deadline of October 1. He said that USAC staff would be conducting parallel tests with the FCC this summer in preparation for the cutover on October 1. Mr. Gumper explained that the decision to move these operations in-house was done quickly and several of the changes to the budget this quarter are due to staffing increases.
- i4. **Report on Legislative and Media Activity.** Mr. Blackwell reported on the continuing investigation of the Schools and Libraries Support Mechanism being conducted by the United States House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight. Mr. Blackwell then recommended that because he had *pre-decisional* information regarding the details of possible upcoming hearings, further discussion of this matter should be conducted in **Executive Session** in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that further discussion of possible upcoming hearings by the United States House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight on the continuing investigation of the Schools and Libraries Support Mechanism shall be conducted in **Executive Session**.

See **Executive Session** for a report of this discussion.

- i5. **Regulatory Report.** In response to a Board member inquiry, Mr. Barash reported to the Board that USAC does not expect any action on the letter filed with the FCC by the North American Numbering Plan Billing and Collection Agent (NBANC) objecting to the FCC treating North American Numbering Plan (NANP) funds as part of the Commission's financial statements. Mr. Gumper noted that NBANC has the same issue

as USAC concerning the treatment of its funds as federal funds for accounting purposes.

- i6. Report on Pending Litigation and Bankruptcy Matters.** For information only. No discussion held.
- i7. Update on Universal Service Support Mechanisms Enforcement Activity.** Mr. Barash informed the Board that additional arrests have been made related to the Milwaukee fraud case that has previously been publicly announced. In addition, he said he had additional information regarding a longstanding investigatory matter, and that in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, he recommended discussion of the issue be held in **Executive Session** because this matter involves *program integrity* and *investigatory records and contemplated enforcement action* against a participant in the universal service support mechanism.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that discussion of information regarding a longstanding investigatory matter shall be conducted in Executive Session.

See **Executive Session** for a report of this discussion.

- i8. Disposition of Administrator Appeals by USAC Staff.** For information only. No discussion held.
- i9. Miscellaneous.**

- **Report on Corporate Governance Matters – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of matters regarding corporate governance and corporate fiduciary duties be conducted in **Executive Session** because the Board of Directors has sought legal advice concerning certain corporate governance issues and discussion of these matters in **Executive Session** is required in order to ensure the continued applicability of the *attorney-client privilege*.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that discussion of certain matters regarding corporate governance and corporate fiduciary duties shall be conducted in Executive Session.

See **Executive Session** for a report of this discussion.

- i10. Report of the FCC Financial Audit of the FCC's Financial Statements for the Year Ending September 30, 2003.** For information only. No discussion held.

- i11. Status Report on Ongoing USAC Audits.** Mr. Scott reviewed the cumulative dollar effect of the KPMG audit reports and the randomly selected audits performed by the USAC Internal Audit Division (IAD). The Board **DIRECTED** staff to further summarize the data by determining the dollar amount of each type of finding and whether the findings are due to lack of education thus requiring more outreach, or due to fraud or abuse, thus requiring consideration of possible referral for enforcement action. Mr. Gumper explained that the non-compliant findings and percentage of dollars disbursed from the internal audits conducted by USAC staff are large compared to the KPMG audits because USAC's audits are targeted audits, while KPMG audits are randomly selected applicants. The Board also **DIRECTED** USAC staff to tie outreach plans with audit findings in an effort to reduce the need for audits.

At this point in the discussion, a Board member asked to discuss USAC's outreach efforts regarding the Schools and Libraries Support Mechanism program integrity requirements in detail. Mr. McDonald recommended, and Mr. Barash agreed, that in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, discussion of USAC program integrity requirements be held in **Executive Session** because the outreach plans involve *internal rules and procedures* concerning the administration of the universal service support mechanisms and discussion of the matter in open session would result in *disclosure of confidential techniques and procedures* that would compromise program integrity.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that discussion of specific details of Schools and Libraries Support Mechanism outreach plans shall be conducted in **Executive Session**.

See **Executive Session** for a report of this discussion.

- i12. Status Report on Actions Taken on Final USAC Audits.** For information only. No discussion held.
- i13. Review of Revised 2004 USAC Internal Audit Plan – Confidential & Proprietary.** For information only. No discussion held.
- i14. Review of 37 Contributor Revenue Agreed-Upon Procedures Operational Reports as Prepared by Deloitte & Touche LLP and One Summary Report as Prepared by USAC Internal Audit Division – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that the agreed-upon procedures reports be discussed in **Executive Session** because discussion of the reports relates to specific internal controls, and/or confidential company data that would constitute a discussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session would result in disclosure of confidential techniques and procedures that would compromise program

integrity.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that discussion of the Contributor Revenue Agreed-Upon Procedures Report labeled US2003OP001 – US2003OP037 and one summary report labeled US2003OP038 shall be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion and action taken on this item.

**i15. Review of the 3rd Quarter 2004 Programmatic Budgets and Revised Annual 2004 Programmatic Budgets for High Cost and Low Income and Schools and Libraries Support Mechanisms.** For information only. No discussion held.

**i16. Review of 3rd Quarter 2004 High Cost, Low Income, Rural Health Care, and Schools and Libraries Support Mechanisms Projections for the April 30, 2004, FCC Filing.** For information only. No discussion held.

At 9:47 a.m., on a motion duly made and seconded, the Board voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above. The Chair then recessed the meeting. At the call of the Chair, the Board reconvened in **Executive Session** at 10:02 a.m. Ms. Howard called the roll at the request of the Chair. Seventeen of the nineteen members were present, representing a quorum:

<b>Seventeen of the nineteen members were present, representing a quorum:</b>	
Askin, Jonathan	Gumper, Frank – Chair
Baker, Dave	Hess, Kevin
Bryant, Anne	Hughes, Alison
Buller, Karen	Jackson, Jimmy – Secretary
Campbell, Anne	Jortner, Wayne – Treasurer
Christensen, Doug	Sanford, Jo Anne
Cornell, Diane	Talbott, Dr. Brian
Duff, Bridget	Zaina, Lisa – CEO
Eichler, Ed	
<b>One member joined the meeting in progress:</b>	
Lubin, Joel – Vice Chair– by telephone	
<b>One member was absent:</b>	
Sanders, Jay	
<b>Other Officers of the Corporation present:</b>	

Barash, D. Scott - Vice President and General Counsel	
Blackwell, Mel - VP, External Communications and Rural Health Care Division	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George - VP, Schools and Libraries Division	
Scott, Wayne - VP, Internal Audit Division	
<b>Others present for the meeting:</b>	
<b>Name</b>	<b>Company</b>
Gill, Chuck	NECA Services, Inc.
Hegmann, Bill	NECA
Howard, Cathy	USAC
Lamoureux, Renee	USAC
Miller, Linda	USAC
Nadel, Mark	FCC

## Executive Session

### a9. Miscellaneous.

#### **\_02. Update from Members of the NECA Board of Directors on Recent Events Involving NECA and NECA Services, Inc. – Confidential & Proprietary.**

Mr. Gumper introduced Mr. Bill Hegmann and Mr. Chuck Gill, Chairs of the NECA and NSI Boards of Directors, respectively. Messrs. Hegmann and Gill reported on recent NECA/NSI events. At the conclusion of the presentation and discussion Messrs. Hegmann and Gill left the meeting.

- a5. Approval of Course of Action and Request for Budgetary Authority Concerning an Investigative Audit Matter – Confidential & Proprietary.** Mr. Scott introduced and briefly discussed this item. The Board determined to amend the resolutions by eliminating the resolution that specifically speaks to hiring three new auditors since the Board already approved such hires under agenda item #aBOD06, the budget issue paper.

Mr. Lubin and Mr. Gumper abstained from voting on this item.

On a motion duly made and seconded, the Board adopted the following resolution as amended (in ~~strikeout~~):

**RESOLVED**, That the USAC Board of Directors approves the recommendation of the USAC Audit Committee to accept the recommendation made by USAC Internal Audit Division management to proceed with the required audit work to investigate the issues raised in the March 5 letter to the USAC CEO concerning the

activities of certain contributors to the Universal Service Fund; and

~~**RESOLVED FURTHER**, That the USAC Board of Directors accepts the recommendation of the Audit Committee and authorizes USAC Internal Audit Division management to proceed with hiring three additional auditors.~~

- i4. Report on Legislative and Media Activity – Confidential & Proprietary.** Mr. Blackwell informed the Board of potential hearings by the United States House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight on the continuing investigation of the Schools and Libraries Support Mechanism.
- i7. Update on Universal Service Support Mechanisms Enforcement Activity – Confidential & Proprietary.** Mr. Barash provided the Board with a brief update on an ongoing Schools and Libraries Support Mechanism enforcement issue.
- i9. Report on Corporate Governance Issues – Confidential & Proprietary.** Mr. Haga and Mr. Barash reported on several corporate governance issues. After discussion, the Board DIRECTED USAC management to provide the Board with an assessment of the issues discussed at the next quarterly meeting.
- i14. Review of 37 Contributor Revenue Agreed-Upon Procedures Operational Reports as Prepared by Deloitte & Touche LLP and One Summary Report as Prepared by USAC Internal Audit Division – Confidential & Proprietary.** Mr. Gumper discussed some of the findings of these audits and reviewed the quality of the deliverables produced by Deloitte & Touche LLP.
- a9. Miscellaneous.**
  - \_03. Report on Application of the Improper Payment Act to the Universal Service Support Mechanisms– Confidential & Proprietary.** Ms. Zaina informed the Board of dialogue between USAC staff and the FCC regarding the potential application of the Improper Payment Act to the universal service support mechanisms.
- i11. Status Report on Ongoing USAC Audits.** Mr. Gumper reminded the Board that one of the reasons that the Schools & Libraries Committee along with some USAC staff were taking a trip to Whippany, New Jersey later this same day is to brainstorm outreach issues. Dr. Talbott summarized how the members of the Schools & Libraries Committee feel that USAC's outreach efforts are going.

The Board adjourned from **Executive Session** and reconvened in open session at 12:14 p.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Mr. Gumper adjourned the meeting at 12:16 p.m.

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Robert W. Haga  
Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY****BOARD OF DIRECTORS MEETING**

July 20, 2004

**MINUTES**

The quarterly meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the USAC office in Washington, DC on Tuesday, July 20, 2004. Mr. Gumper, Chair of the Board, called the meeting to order at 8:30 a.m. Eastern Time. Ms. Lamoureux, Executive Assistant to the CEO, called the roll. Sixteen of the nineteen members were present, representing a quorum:

<b>Sixteen of the nineteen members were present, representing a quorum::</b>	
Askin, Jonathan - <i>by telephone</i>	Gumper, Frank - Chair
Baker, Dave	Hess, Kevin
Bryant, Anne	Hughes, Alison - <i>by telephone</i>
Buller, Karen	Jortner, Wayne - Treasurer
Campbell, Anne	Lubin, Joel - Vice Chair- <i>by telephone</i>
Cornell, Diane	Sanders, Dr. Jay
Duff, Bridget	Sanford, Jo Anne
Eichler, Ed	Zaina, Lisa - CEO
<b>Three members were absent:</b>	
Christensen, Doug	Talbott, Brian
Jackson, Jimmy - Secretary	
<b>Other Officers of the Corporation present:</b>	
Barash, D. Scott - Vice President and General Counsel	
Blackwell, Mel - VP, External Communications and Rural Health Care Division	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George - VP, Schools and Libraries Division	
Scott, Wayne - VP, Internal Audit Division	
<b>Others present for the meeting:</b>	
<b>Name</b>	<b>Company</b>
Carroll, Kristy	USAC
Delmar, Teleshia	USAC
Faunce, Donna	USAC
Johnson, Daniel	USAC
Kraft, Mick	USAC
Lamoureux, Renee	USAC
Noran, John	USAC
Stephens, Mark	FCC
Trew, Anne Marie	USAC

## ACTION ITEMS:

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Board approved the meeting minutes as distributed of Tuesday, April 20, 2004.
- a2. Reports from the Committee Chairs.** Each of the Chairs of the USAC programmatic Committees reported on issues discussed and action taken by each Committee since the April 2004 quarterly meetings: Mr. Eichler reported on the Audit Committee meeting of July 19, 2004; Mr. Gumper reported on the Executive Committee meetings of June 18, 2004 and July 15, 2004; Mr. Hess reported on the High Cost & Low Income Committee meeting of July 19, 2004; Dr. Sanders reported on the Rural Health Care Committee meeting of July 19, 2004; and Ms. Bryant reported on the Schools & Libraries Committee meetings of July 1 and 19, 2004.

The minutes of each Committee meeting provide a full accounting of the discussions and actions taken by the Committees.

- a3. Approval of 4th Quarter 2004 USAC Common and Consolidated and Revised 2004 Annual Common and Consolidated Budgets.** Mr. Carmichael introduced this item indicating that no changes to the USAC annual budget were proposed at this time.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors accepts the recommendation of the Executive Committee to approve a 4th Quarter 2004 USAC common budget of \$3,794,200; and

**RESOLVED FURTHER**, That the USAC Board of Directors accepts the recommendation of the Executive Committee recommends to approve a 4th Quarter 2004 USAC consolidated budget of \$19,408,000.

- a4. Approval of 4th Quarter 2004 Revenue Projections and Resolutions for the September 1, 2004 FCC Filing.** Mr. Carmichael introduced this item and discussed the current drawdown policy as well as HCLI prior period adjustments and its affect on the contribution base. The Board members expressed interest in more detailed information on projections and requested that Mr. Carmichael schedule a presentation in the afternoon following the October board meeting.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors, having reviewed at its meeting on July 20, 2004 a summary of the current status of the September 1, 2004 FCC filing requirements, accepts the recommendation of the USAC Executive Committee to authorize staff to proceed with the required September 1, 2004 filing to the FCC on behalf of USAC using a preliminary estimate of \$18,827.379 million for the Universal Service Fund contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

- a5. Approval of Revised Investment Guidelines.** Mr. Carmichael introduced the proposed changes to the USAC Funds: Guidelines for Investments being proposed to improve the oversight and implementation of the USAC's investment policies, as approved by the USAC Investment Committee on May 11, 2004.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors accepts the recommendation of the USAC Investment and Executive Committees and adopts the revised *USAC Funds: Guidelines for Investments as presented by USAC management*.

- a6. Approval of Late Payment Fee Basis.** Mr. Carmichael responded to inquiries regarding the motivation behind the change in the rate, advising that the FCC Office of the General Counsel staff directed a review and substantiation of the basis for the late payment fee rate. USAC and the FCC agreed that it would be appropriate to evaluate the rate every two years.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors approves the course of action proposed by USAC staff to set the Late Payment Fee annual rate at 8% beginning October 2004 and that this rate remain in effect for two years.

- a7. Preliminary Review of USAC 2003 Independent Audit of USAC Financial Statements and Agreed Upon Procedures Review.** Mr. Scott presented the 2003 financial and operational audits performed by USAC's independent auditor, Deloitte Touche.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors accepts the recommendation of the USAC Audit Committee and directs that the USAC 2003 financial audit report as submitted by Deloitte and Touche LLP be deemed final; and

**RESOLVED FURTHER**, That the USAC Board of Directors accepts the recommendation of the USAC Audit Committee and directs that the USAC 2003 agreed upon procedures review report as submitted by Deloitte and Touche LLP be deemed final; and

**RESOLVED FURTHER**, That the USAC Board of Directors accepts the recommendation of the USAC Audit Committee and authorizes the USAC CEO to submit a management response to Deloitte Touche LLP, with a copy to the FCC, accepting the USAC 2003 financial audit report and agreed upon procedures review report and committing to take the actions necessary to address the issues that were identified in the agreed upon procedures review report; and

**RESOLVED FURTHER**, That the USAC Board of Directors accepts the recommendation of the USAC Audit Committee and authorizes Deloitte and Touche LLP to file the final USAC 2003 financial audit report and agreed upon procedures review report with the FCC.

- a8. Miscellaneous.**

**\_01. Solicit Ideas for October 2004 Board Agenda.** Mr. Gumper reminded Board members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him or Ms. Zaina between quarterly meetings.

## Information Items

- i1. **Assistant Treasurer's Report.** For information only. No discussion held.
- i2. **Strategic Planning Update.** Mr. Haga discussed recent strategic planning efforts undertaken by USAC management.
- i3. **Regulatory Report.** Mr. Barash provided a report on regulatory activity concerning the Universal Service Support Mechanisms and selected other issues and proceedings for the period April 1 – June 30, 2004.
- i4. **Report on Legislative and Media Activity.** Mr. Blackwell reported on the continuing investigation of the Schools and Libraries Support Mechanism being conducted by the United States House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight.
- i5. **Report on Pending Litigation and Bankruptcy Matters.** For information only. No discussion held.
- i6. **Disposition of Administrator Appeals by USAC Staff.** For information only. No discussion held.
- i7. **Report on Corporate Issues. Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedures for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of this issue centers on matters subject to the attorney-client privilege upon which the USAC Board of Directors has sought the advice of counsel. Discussion of these matters in open session would compromise the continued applicability of the attorney-client privilege.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board determines that consideration of the report from counsel on certain corporate matters shall be conducted in **Executive Session**..

**See Executive Session** for a report of this discussion.

- i8. **Report on Accounts Receivable Delinquent Over 30 Days and on Collection Efforts.** For information only. No discussion held.
- i9. **Status of Discussions with the FCC Concerning Investment Alternatives. Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedures for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of pre-decisional matters before a governmental agency or instrumentality to which USAC is privy, where discussion of such matters in open session would undermine the agency's deliberative process or would result in the disclosure of an agency's conclusions or rationales before the agency had formally decided the matter.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board determines that discussion of this matter shall be conducted in **Executive Session**.

See **Executive Session** for a report of this discussion.

**i10. Miscellaneous**

- **Expiring Board Terms.** Mr. Gumper advised the Board of the status of the current member terms. The Board directed Ms. Zaina to forward a letter to the FCC regarding the expiring terms for further action.

**i11. Status Report of Ongoing Audits – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that the agreed-upon procedures reports be discussed in **Executive Session** because discussion of the reports relates to specific internal controls, and/or confidential company data that would constitute a discussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session would result in disclosure of confidential techniques and procedures that would compromise program integrity.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that discussion of the this matter shall be conducted in Executive Session.

See **Executive Session** for a report of the discussion and action taken on this item..

**i12. Status of Report on Actions Taken on Final USAC Audits.** For information only. No discussion held.

**i13. Review of the 4th Quarter 2004 Programmatic Budgets.** For information only. No discussion held.

**i14. Review of 4th Quarter 2004 High Cost, Low Income, Rural Health Care, and Schools and Libraries Support Mechanisms Projections for the August 2, 2004, FCC Filing.** For information only. No discussion held.

At 10:35 a.m., on a motion duly made and seconded, the Board voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above. The Chair then recessed the meeting. At the call of the Chair, the Board reconvened in **Executive Session** at 10:50 a.m.

**Executive Session**

**i7. Report on Corporate Issues. Confidential & Proprietary –** Mr. Barash reviewed a report on certain corporate governance issues. The Board agreed to revisit this issue at the January 2005 Board meeting.

- i9. Status of Discussions with the FCC Concerning Investment Alternatives. Confidential & Proprietary** – Mr. Carmichael provided a summary of recent discussion with the FCC regarding various investment alternatives for USF.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors directs the Treasurer and Assistant Treasurer of the corporation to lengthen current maturities of the Universal Service Fund under investment in a prudent manner in order to increase interest income while maintaining appropriate liquidity of the investment portfolio.

**i10. Miscellaneous.**

- The Board reviewed and discussed a letter recently received from the Hispanic Caucus regarding funding the status of funding in Puerto Rico.

- i11. Status Report of Ongoing USAC Audits – Confidential & Proprietary.** Mr. Scott reviewed the findings of a recent High Cost audit. Ms. Zaina discussed plans for future outreach efforts. After discussion, the Board directed the staff to present a detailed outreach plan at the October Board meeting and authorized USAC staff to retain the services of a professional PR firm to assist in developing such a plan. The Board also discussed recent discussions with the FCC and IG regarding increased USF oversight.

On a motion duly made and seconded, the Board adopted the following resolutions:

**RESOLVED**, That the USAC Board of Directors authorize staff to work with the FCC and USAC's current outside auditor to incorporate the existing plan for one hundred audits into a three-way agreement with KPMG and the FCC; and

**RESOLVED FURTHER**, That the USAC Board of Directors authorizes USAC staff to work with the FCC to prepare and release an RFP for a three-way agreement to conduct overall USF oversight.

The Board adjourned from **Executive Session** and reconvened in open session at 12:14 p.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Mr. Gumper adjourned the meeting at 12:16 p.m.

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Robert W. Haga  
Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**BOARD OF DIRECTORS MEETING**

**October 19, 2004**

**MINUTES**

The quarterly meeting of the Board of Directors of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC on Tuesday, October 19, 2004. Mr. Gumper, Chair of the Committee, called the meeting to order at 9:09 a.m. Eastern Time. Ms. Lamoureux, Executive Assistant to the USAC CEO, called the roll.

<b>Eighteen of the nineteen members were present, representing a quorum:</b>	
Baker, Dave	Hess, Kevin
Bryant, Anne	Hughes, Alison – <i>by telephone</i>
Buller, Karen	Jackson, Jimmy – Secretary
Campbell, Anne	Jortner, Wayne - Treasurer
Christensen, Doug – <i>by telephone</i>	Lubin, Joel – Vice-Chair
Cornell, Diane	Sanders, Jay
Duff, Bridget	Sanford, Jo Anne
Eichler, Ed	Talbott, Brian
Gumper, Frank – Chair	Zaina, Lisa - CEO
<b>Other Board members and Officers of the Corporation present:</b>	
Barash, D. Scott – Vice President and General Counsel	
Blackwell, Mel – VP, Rural Health Care and External Communications	
Carmichael, Mark – Assistant Treasurer, VP Finance	
Flannery, Irene – VP, High Cost & Low Income Division	
Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George – VP, Schools & Libraries Division	
Scott, Wayne – VP, Internal Audit Division	
<b>Others present for the meeting:</b>	
<b>Name:</b>	<b>Company:</b>
Bancroft, Royce	USAC
Caroll, Kristy	USAC
Davis, Craig	USAC
Dinwiddie, Paula	USAC
Divak, Helen	Telcordia
Faunce, Donna	USAC
Goff, Liz	USAC
Hill, Bill	FCC
Lamoureux, Renee	USAC
Majcher, Karen	USAC
Miller, Linda	USAC
Parry, John	NSI
Rodriguez, J	FCC
Schultz, Cynthia	USAC
Spiller, Bob	USAC

**ACTION ITEMS:**

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Board approved the minutes, as distributed, of the USAC Board of Directors meeting of Tuesday, July 20, 2004.
- a2. Reports from the Committee Chairs.** Each of the Chairs of the USAC programmatic Committees reported on issues discussed and action taken by each Committee since the July 2004 quarterly meetings: The minutes of each Committee meeting provide a full accounting of the discussions and actions taken by the Committees.
- a3. Appointment of a Nominating Committee and Direction to Committees for the Appointment of Committee Chairs and Committee Vice-Chairs.** Mr. Zaina introduced this item seeking nominations for appointment to the USAC Nominating Committee.

On a motion duly made and seconded, the Board adopted the following resolutions:

**RESOLVED**, That the USAC Board of Directors establishes a Nominating Committee for the purpose of recommending to the USAC Board of Directors at its January 2005 meeting nominations for the elected USAC officer positions and to bring to the USAC Board of Directors at the anticipated December 2004 special Board meeting recommendations for Committee appointments for new Board members; and,

**RESOLVED FURTHER**, That the USAC Board of Directors appoints **Mr. Frank Gumper** as Nominating Committee chair, and **Ms. Jo Anne Sanford** and **Ms. Bridgett Duff**, as members of the Nominating Committee; and,

**RESOLVED FURTHER**, That the USAC Board of Directors directs each Committee of the USAC Board of Directors to bring to the Board of Directors at its January 2005 meeting nominations for a chair and vice chair of each respective Committee.

- a4. Approval of the USAC Education and Communication Plan.** Mr. Gumper provided a background of the Board's request to create a communication vehicle after evaluating outreach needs. Ms. Zaina introduced the proposed education and communications plan to the Board providing a summary of the plan which, if adopted, will be a means to better educate stakeholders in the programs.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors authorizes adoption and implementation of the proposed Education and Communications Plan.

- a5. Revised 2004 Annual Consolidated Budget.** Mr. Carmichael reviewed the revised 2004 Annual Consolidated Budget for the Board indicating the revision was required due to a change in the HCLI programmatic budget..

On a motion duly made and seconded, the Board adopted the following resolution

**RESOLVED**, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 2004 annual USAC consolidated budget of \$76,031,900.

- a6. Selection of Group Health and Insurance Vendor – Confidential and Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, USAC management recommends that discussion of this item be conducted in *Executive Session* because discussion of this matter, which relates to USAC's *procurement strategy and contract negotiations*, and public disclosure of the matters discussed in this paper would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors determines that discussion of the selection of a vendor to provide group health and employee insurance benefits shall be conducted in *Executive Session*.

See *Executive Session* for a report of the discussion and action taken on this item.

- a7. Approval of the 1st Quarter 2005 USAC Common and Consolidated Budgets and Information on the Estimated 2005 Annual Budget.** Mr. Carmichael introduced the estimated 2005 annual budget to the Committee answering questions from the Board regarding the allocation of costs. Mr. Haga explained the request for staff increases in Information Technology related to the need to support various requirements associated with the government accounting order.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors approves a 1<sup>st</sup> Quarter 2005 USAC common budget of \$6,203,600; and

**RESOLVED FURTHER**, that the USAC Board of Directors to approve a 1<sup>st</sup> Quarter 2005 USAC consolidated budget of \$29,190,800.

- a8. Approval of 1st Quarter 2005 Revenue Projections for the December 2, 2004 FCC Filing.** Mr. Carmichael reviewed the preliminary estimate with the Board.

On a motion duly made and seconded, the Committee adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors, having reviewed at its meeting on October 19, 2004, a summary of the current status of the December 2, 2004 FCC filing requirements, authorize USAC staff to proceed with the required December 2, 2004 filing to the FCC on behalf of USAC using a preliminary estimate of \$18,699.412 million for the Universal Service Fund contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

- a9. Biennial Review and Approval of USAC Employee Ethical Standards.** Mr. Barash provided an overview of the clarifying modifications proposed to the current *Statement of Ethical Conduct for Employees* and related provisions. Mr. Barash reported to the Board that he frequently consults with employees regarding ethics matters and that he was not aware of any violations of USAC's employee ethical standards since the last Board of Directors review.

On a motion duly made and seconded, the Board adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors accepts the recommendations of the USAC Executive Committee that the current *Statement of Ethical Conduct for Employees* be modified as recommended by staff.

**a10. Miscellaneous.**

- **Solicit Ideas for January Agenda.** Mr. Gumper reminded members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him or Ms. Zaina between quarterly meetings.
- **Approval for Reimbursing a Board Member to Attend an Event Other Than a USAC Board or Committee Meeting or Event.** Mr. Gumper introduced this item. He stated that he is requesting reimbursement from USAC for expenses he has incurred and will incur for attending USAC business related business in Washington, DC to conduct USAC business during the rest of 2004. The USAC Board Chair has been required to attend meetings and other activities in Washington, DC on behalf of USAC. Recent and upcoming examples include a deposition in a bankruptcy litigation matter testimony at a U.S. Senate hearing in Washington, DC. Because of issues like these and the ongoing discussions regarding government accounting, Mr. Gumper requests Board approval for USAC to reimburse him for reasonable expenses associated with his travel to Washington, DC to conduct USAC business during the rest of 2004.

On a motion duly made and seconded, the Board adopted the following resolution; Mr. Gumper abstained:

**RESOLVED**, That in accordance with the *Procedures for Requesting Approval and Reimbursing a Member of the Board of Directors for Expenses Incurred in Conducting USAC Business other than Board of Directors Meetings* approved by the USAC Board of Directors, the USAC Board of Directors authorize the Corporation to reimburse the USAC Chairman of the Board, Mr. Frank Gumper, for travel expenses incurred by him to visit the USAC Washington, DC office during the months of October, November, and December 2004 in order to attend to USAC business.

At 11:03 a.m., on a motion duly made and seconded, the Board voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above.

**Executive Session**

- a6. Selection of Group Health and Insurance Vendor – Confidential and Proprietary** – Mr. Haga presented USAC management's recommendation for the selection of a vendor to provide group health and employee insurance benefits.

On a motion duly made and seconded, the Committee adopted the following resolution:

**RESOLVED,** That the USAC Board of Directors approve the selection of The Guardian to provide medical, dental, vision, and prescription insurance coverage, Genworth for Life Insurance, AD&D, Short Term Disability, and Long Term Disability coverage, and HFS for Flex Saving Account and COBRA administration for employees.

- i7. Report on Financial Matters and Corporate Operations Issues.** Mr. Gumper provided the Committee with a report on the recent hearing at which he testified before the Senate Committee on Commerce, Science & Transportation, as well as recent discussions with the FCC regarding USF financial matters.
- i8. Summary of Management Consultant Review.** Ms. Zaina provided a summary of the recent management consultant review.
- i9. Miscellaneous.** Mr. Gumper provided the Board with an update on the status of the CEO's current employment contract.

The Board adjourned from **Executive Session** and reconvened in open session at 12:14 p.m. to report the discussions and actions of the Board during **Executive Session**.

There being no further business, Mr. Gumper adjourned the meeting at 12:15 p.m.

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Robert W. Haga  
Assistant Secretary