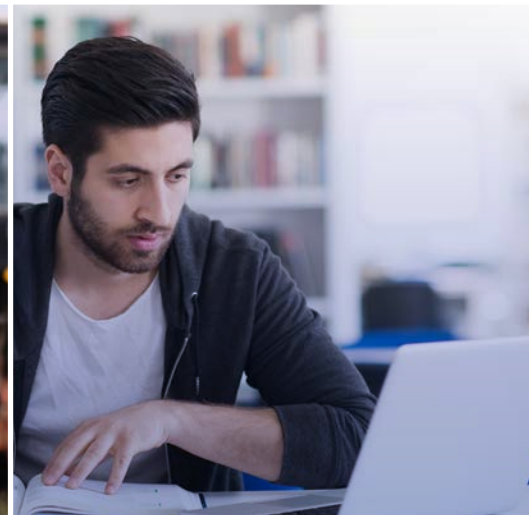
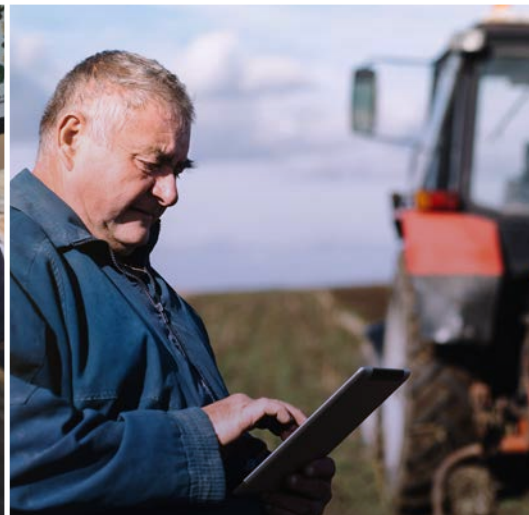




Universal Service
Administrative Co.

AVAILABLE FOR PUBLIC USE

2019 ANNUAL REPORT



MISSION

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

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Executive Summary



This annual report outlines the work that USAC completed in 2019—our successes, our priorities, and the ways we strive to improve in the future. When I reflect on its pages, I'm struck that the report shows the what, but not the who. It does not highlight the people who make those achievements possible, so I will take the opportunity to tell you a bit about them here.

The Universal Service Fund (USF) program experts, IT professionals, and business lines work tirelessly to build the tools and manage the processes that ensure USF funds are effectively and efficiently administered. Project management experts, customer service specialists, trainers, and communicators work across programs to help implement changes and ensure eligible stakeholders can access program funds. And then USAC must conduct the business of running the organization—from the general counsel's office and procurement specialists, to the human resource professionals and office managers. Our vendor community is deeply committed to helping USAC achieve our mission.

The success of USAC also depends on our Board of Directors and colleagues at the FCC, whose vision, knowledge, and guidance shape the direction of the Universal Service Fund and USAC's administration. Thank you especially to Joel Lubin, our outgoing USAC Board Chair, who served 19 years with the USAC Board.

I am grateful for the contributions of everyone who played a part of USAC's success in 2019 and will participate in the Universal Service Fund in the coming year.

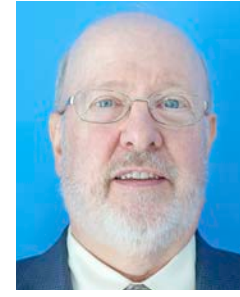


Radha Sekar

Chief Executive Officer

Universal Service Administrative Company, Washington, DC

Message from the Board Chair



Serving 19 years on the USAC Board of Directors and as the Board Chair for the past two years, I have witnessed positive organizational change and transformative growth during my time at USAC. At the start of my tenure in 2001, USAC's total disbursements were at \$4.7 billion, reflecting just over half of the 2019 disbursement totals we have today. Since then, the E-rate, High Cost, Lifeline, and Rural Health Care programs have now expanded across the United States, supported by 570 full-time staff members who provide unprecedented service to USAC stakeholders.

One thing that has not changed during my time at USAC is the commitment of the USAC team, the USAC Board, and our FCC counterparts. Through their synergy, diligence, and motivation to achieve national Universal Service, the future of USAC remains boundless.

It has been an honor and privilege to be a USAC Board Member and help achieve the Universal Service mission of ensuring quality connectivity services for all.



Joel Lubin

Chair

Universal Service Administrative Company, Washington, DC

2019 Year in Review

USAC achieved success in 2019 by continuing to implement the strategy that the organization established in 2018. The organization completed major initiatives across the enterprise and programs that will allow USAC to be more efficient, secure, and effective as we work with the FCC to administer the USF programs.

Although 2019 presented many challenges, USAC delivered the USF programs on schedule and under budget, while creating a better, more cohesive experience for USF participants.

2019 started with a major shift in the E-rate Program as they transitioned to a new business process outsourcing vendor (BPO), replacing a BPO vendor who worked with the E-rate Program since the program's inception. The move resulted in a significant cost savings of approximately \$21.7 million less than the 2018 expenditures. Although the transition was a heavy lift on the organization, USAC exceeded last year's 95% target for processing timely filed and complete E-rate Program applications.

The Lifeline Program also achieved a major program milestone set by the FCC by launching the Lifeline National Eligibility Verifier (National Verifier) in all 56 states and territories by December 31, 2019. (See page 4 for current map.) Making the National Verifier available to Lifeline users streamlines the

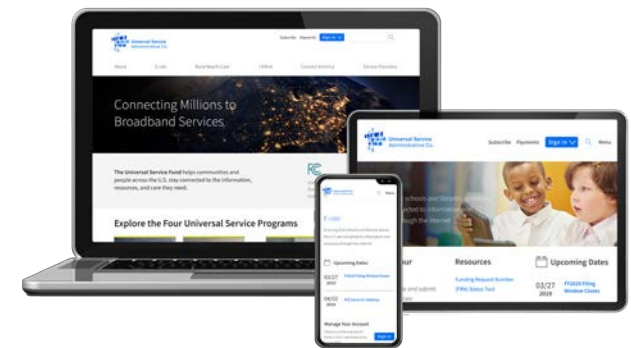
eligibility checking process for consumers, creating a common experience for service providers no matter where they do business, and increases program integrity by applying a consistent eligibility standard for Lifeline Program participants.

National Verifier operations resulted in \$11.3 million in savings against the budget, while achieving the December 2019 goal to complete launches in all states and territories.

Underpinning each of these USF Program successes is USAC's improvement in the enterprise infrastructure. In 2019, USAC strengthened the Information Technology (IT) processes and systems that support both the USF programs and the organization's financial systems. The organization completed a third-party E-Gov assessment focused on identifying risks, opportunities, and recommendations to consolidate and strengthen USAC's IT infrastructure, increase IT security, increase automation, and improve user experience to create better end-user experiences, both within USAC and for its program participants.

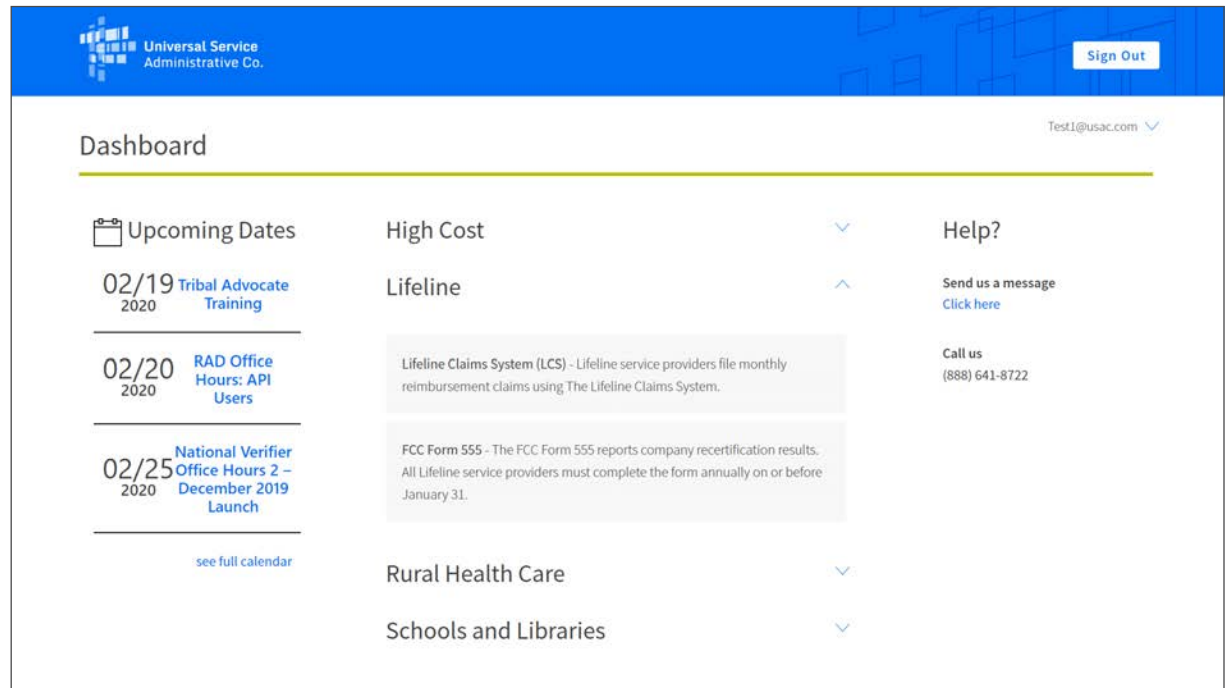
The E-Gov assessment set the stage for USAC's IT modernization and created a road map for the Enterprise Resource Planning (ERP) process that will kick off in 2020.

While looking toward the future, USAC's IT division also focused attention on the needs and information security of current users and USAC systems. USAC obtained Authorization to Operate (ATO)/Risk Acceptance for all USAC systems by the end of 2019, while achieving a \$3.9 million savings in IT security and operations projects.



The Enterprise Data Strategy (EDS) division transformed the way USAC uses data to drive decision making. By establishing an enterprise data warehouse, USAC can create targeted business reports to monitor program operations and can provide a real-time look at program metrics, allowing programs teams to adjust resources as needed and identify program integrity risks as they occur. USAC envisions the business insights within these reports will be the bedrock to inform the ERP process.

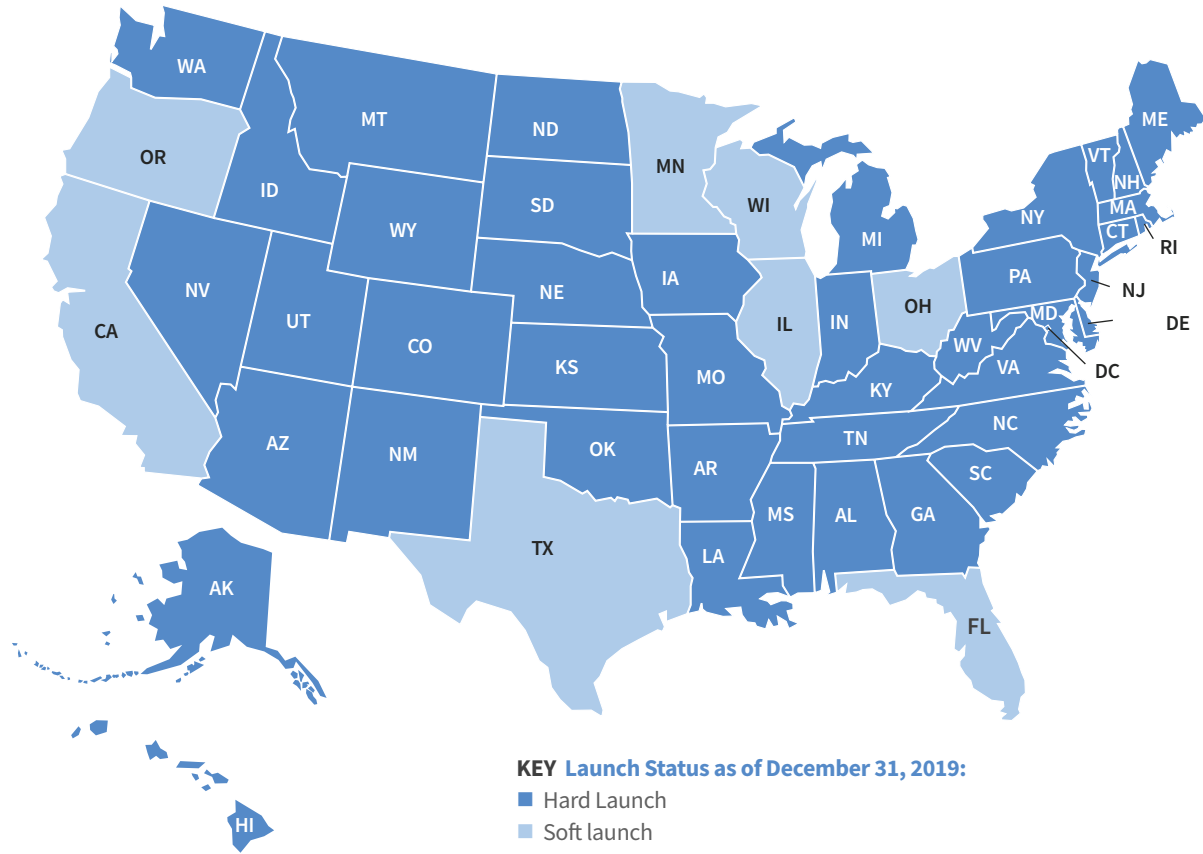
The USAC organization maintained a steady focus to ensure USF program participants have the information and tools they need to apply for and receive funding successfully. Working with program participants, USAC learned that website visitors found its website overwhelming. The site housed important content, but the volume of information, limited search capabilities, and confusing navigation meant visitors often could not locate the resources they needed.



Based on this feedback, the organization redesigned USAC.org to feature homepages that put timely information and key dates front and center, added pages with introductory information aimed at newer participants, expanded menus to help visitors understand what content is available, and improved search capabilities, making it easier to self-serve information. These changes, along with updated design and functionality standards to meet Sections 508 Accessibility standards, meant USAC.org visitors can now find the information they need, when it's needed.

Many USAC contributors and program participants use more than one IT application, so to streamline their user experience, USAC launched the single sign-on portal in December. Through the portal, USAC participants can sign in one time and access most of their USAC applications, see key dates and deadlines, and move between applications without signing out of the system. Customer service is a key component in ensuring participant success, and USAC call centers supported over 750,000 contacts in 2019. Support ranged from general program questions, assistance during busy program filing

LIFELINE PROGRAM: NATIONAL VERIFIER LAUNCH MAP



windows, and handling a 100% increase in Lifeline National Verifier monthly call volume due to new states that launched in 2019.

Combating waste, fraud, and abuse, and safeguarding the integrity of the Universal Service Fund is a priority for USAC. As USAC’s front line against waste, fraud, and abuse, audits allow the organization to identify irregularities and make corrections. In 2019, USAC conducted 85 Beneficiary and Contributor Audit Program (BCAP) audits, 1,248 Program Quality Assessment (PQA) assessments, and five strategic audits. Based on these audits and assessments, USAC recommended recovering \$14.5 million in additional contributions and repaid universal service funds. To support the audit division’s work, USAC established a Fraud Risk Group within the Office of General Counsel that is designed to prevent, detect, and respond to fraud in the USF programs.

U.S. COMMONWEALTH AND TERRITORIES



2020 Vision

Looking ahead to 2020, USAC commits to continued success for each of the USF programs. Our efforts include strengthening the Lifeline Program's National Verifier by pursuing additional automated data connections, supporting Rural Health Care Program participants through the implementation of program changes, launching the High Cost Program's Rural Digital Opportunity Fund, and enhancing the E-rate Program participant experience through the launch of the updated 470 drop-down menus and increased opportunities in fiber networks.

USAC anticipates continued change in the USF programs as the organization implements FCC reform orders in the High Cost, Lifeline, E-rate, and Rural Health Care Programs.

In addition to program specific FCC orders, USAC will implement the FCC's USF order Protecting Against National Security Threats to the Communications Supply Chain through FCC Programs. This USF order aims to safeguard the security of America's communications infrastructure and will require that companies and organizations

do not use USF funds to obtain or maintain telecommunications equipment or services from companies that the FCC designates as posing a threat to national security.

Beyond implementing FCC orders, USAC plans to undertake a three-year ERP process, using the tools, business insights, and assessments gained in 2019 to develop a roadmap for the organization's IT modernization. In the first year of the ERP process, USAC anticipates addressing USAC's financial systems and piloting the approach with the Rural Health Care Program.

In 2020, USAC will measure success by its ability to deliver the Universal Service Fund efficiently and its ability to help close the digital divide for the millions of Americans touched by Universal Service Fund initiatives.

USAC Financials

The following charts and graphs provide detail about USAC’s financial health in 2019, including operating expenses, budget, and authorized program support. A monthly breakdown of receipts and outlays for 2019 can be found in the appendix.

2019 OPERATING EXPENSES AND BUDGET HIGHLIGHTS

In 2019, USAC administered the Universal Service Fund successfully while staying under budget. Several successes led to USAC coming in under budget. Some budgetary successes were connected to the USF program administration. The smooth transition to a new E-rate business processing (BPO) vendor resulted in costs that were \$21.7 million less than actual 2018 costs. The E-rate Program also stabilized the E-rate Productivity Center (EPC), driving down maintenance costs for the first time in the system’s lifetime. The Lifeline Program launched the National Verifier across all states and territories, while remaining under the anticipated budget. In the High Cost Program, USAC implemented 64 FCC orders over the course of the year.

On the enterprise level, USAC used its budget efficiently to serve the organization’s mission while increasing its security. In 2019, the organization completed its final transition of cash to U.S. Treasury, resulting in better internal controls. USAC successfully obtained authorization to operate (ATO) on all remaining USAC systems. To prepare for 2020

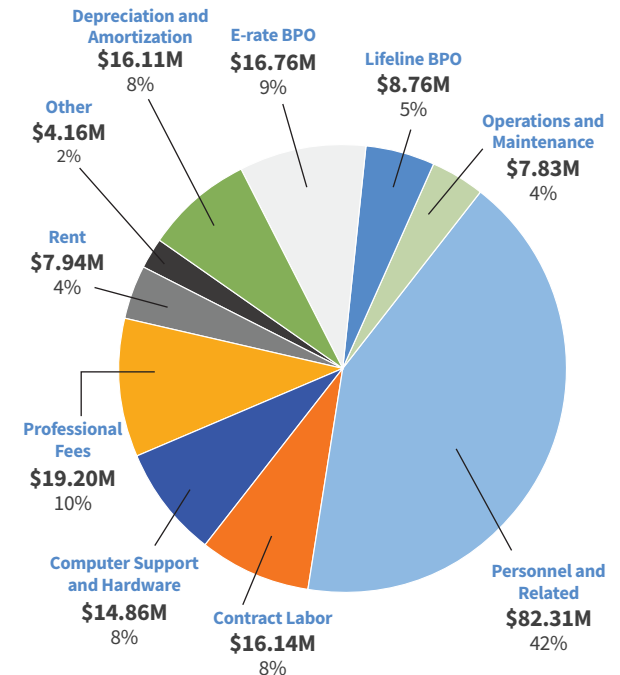
and beyond, USAC completed a third-party E-Gov assessment and developed an IT roadmap that will guide the organization’s IT modernization efforts. USAC’s Audit and Assurance Division recovered \$14.5 million in Beneficiary and Contributor Audit Program (BCAP) audits, returning money to the USF budget.

Statement of Operations

The Statement of Operations table outlines expenses related to performing the administrative functions of the USF. USAC’s expenses fall into three major categories:

- Professional fees which include IT contractors, consultants, and customer support call centers;
- Program expenses which includes all the costs associated with the administration of the four USF programs; and
- Corporate Expenses which include personnel costs for USAC’s 570 full time employees, contract labor, and taxes.

See the table labeled Statement of Operations and Expense Trends on page 7 for the three year trend.

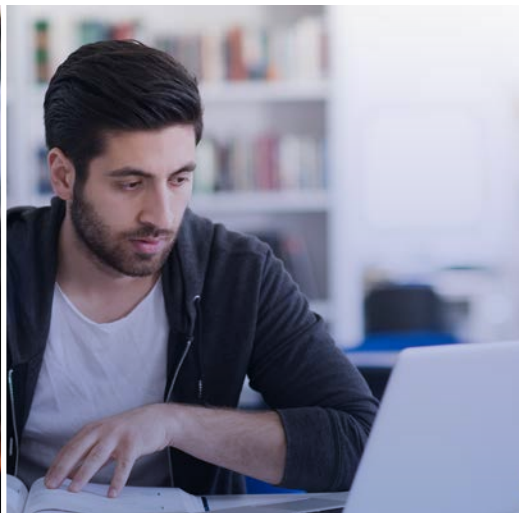
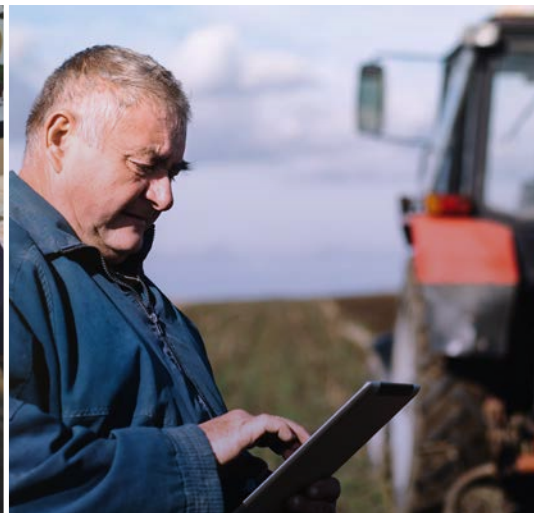


NOTE: Operating expenses include depreciation and amortization expense and exclude capital costs.

Statement of Operations and Expense Trends

	2019 OPERATING EXPENSES PRELIMINARY ACTUALS	2018 OPERATING EXPENSES ACTUALS	2017 OPERATING EXPENSES ACTUALS
E-rate BPO	\$16,761,571	\$38,475,195	\$37,852,045
Lifeline BPO	\$8,762,697	\$5,216,928	\$1,228,402
High Cost Data Collection and Verification	\$595,972	\$837,698	\$895,417
Operations and Maintenance	\$7,831,604	\$15,006,860	\$7,554,462
Personnel and Related Expenses	\$82,310,613	\$72,536,913	\$69,917,187
Contract Labor	\$16,137,441	\$13,651,297	\$13,356,107
Computer Support and Hardware	\$14,859,455	\$14,013,686	\$13,705,096
Professional Fees	\$19,200,173	\$15,666,337	\$21,403,182
Rent	\$7,939,233	\$7,610,653	\$7,350,378
Tax Expense	\$236,458	\$1,548,906	\$4,534,495
Other General and Administrative Expenses	\$3,326,996	\$4,393,310	\$5,801,346
Depreciation and Amortization	\$16,103,345	\$16,032,724	\$13,132,368
TOTAL	\$194,069,586	\$204,990,507	\$196,730,485

NOTE: Operating expenses include depreciation and amortization expense and exclude capital costs.



Universal Service Programs

The Universal Service Fund consists of four programs. The E-rate Program, a fund with an annual funding cap of \$4.15 billion, helps connect schools and libraries to the internet. The High Cost Program offsets costs for companies that expand connectivity services for unserved and underserved Americans. High Cost is the largest USF program and its annual budget is determined by the active funds available each year. The Lifeline Program helps low income consumers afford phone and internet services and has an annual budget of \$2.279 billion (adjusted for inflation). The FCC increased the Rural Health Care Program funding cap to \$571 million annually in 2018. The program supports telemedicine by helping provide connectivity services for health care facilities.

The USF Disbursements Authorized Support chart details trends in authorized program support over the past three years.

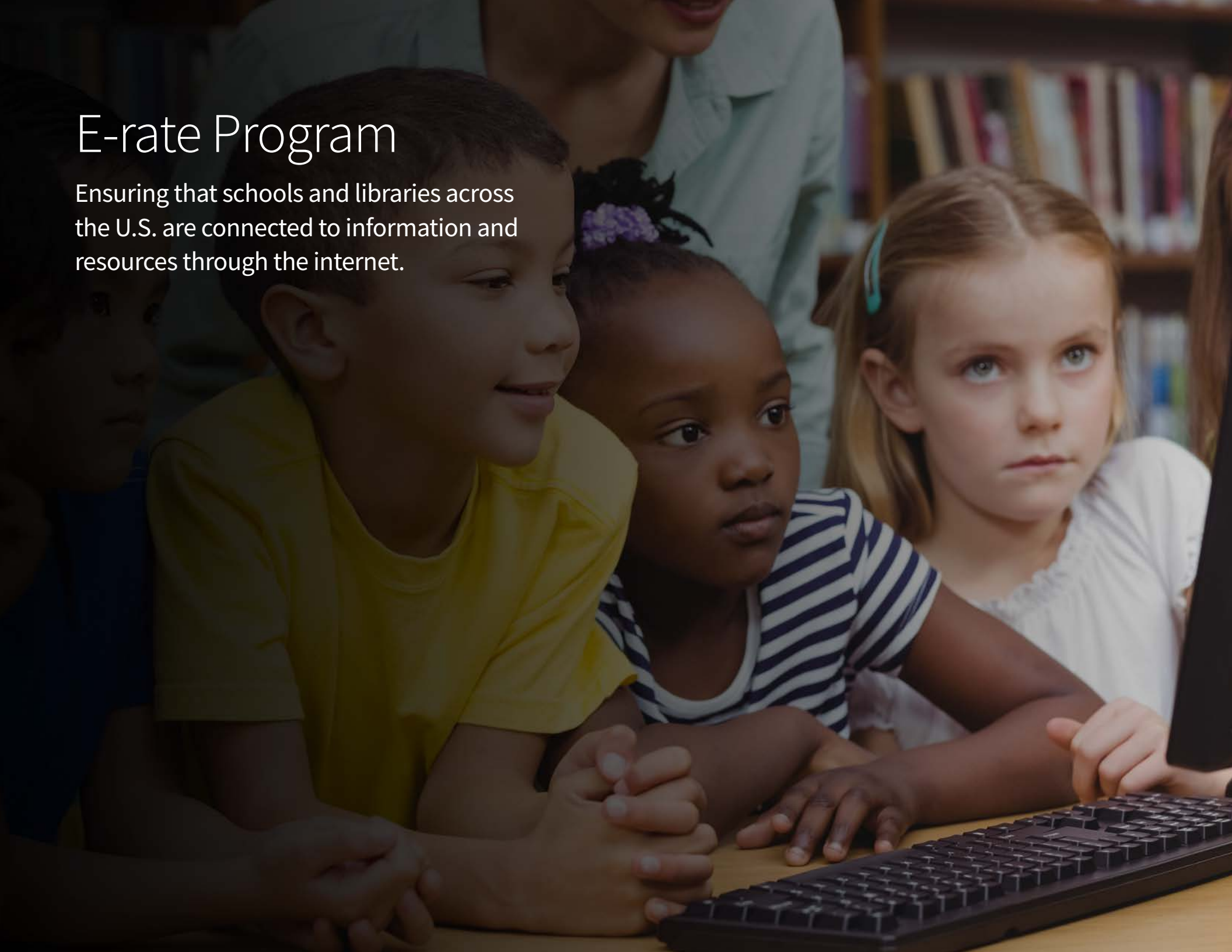
USF DISBURSEMENT AUTHORIZED SUPPORT*

PROGRAMS	2019	2018	2017
E-RATE	\$1,980,178,200.34	\$2,204,556,213.55	\$2,649,690,832.82
HIGH COST	\$5,091,691,304.99	\$4,835,113,845.69	\$4,669,085,607.59
LIFELINE	\$981,731,241.48	\$1,162,116,261.00	\$1,283,670,721.96
RHC	\$251,023,946.07	\$298,620,028.22	\$262,298,491.66)
TOTAL	\$8,304,624,692.88	\$8,500,406,348.46	\$8,864,747,671.03

* Authorized Support includes all funding approved for disbursement for the calendar years 2017, 2018, and 2019, including funding approved but not yet disbursed (due to the Red Light Rule, etc). It does not include recoveries from audits, appeals, or other enforcement actions.

E-rate Program

Ensuring that schools and libraries across the U.S. are connected to information and resources through the internet.



E-rate Program

The E-rate (Schools and Libraries) Program helps schools and libraries obtain affordable high-speed internet access and telecommunication services.

E-rate continues to focus on improving customer service, developing training opportunities, and maintaining operational efficiency.

HIGHLIGHTS

Business Process Operations (BPO) Vendor Transition Completed

In early 2019, the E-rate Program fully transitioned to a new BPO vendor to help process program forms and payments. The transition process included onboarding and training new BPO vendor staff, working with E-rate participants to ensure that they were supported during the move between vendors, and preparing the BPO vendor to manage applications during the 2019 application window and beyond.

Increased Participation and Faster Commitments

The Funding Year (FY) 2019 application filing window closed successfully on March 27, 2019. USAC received 36,453 in-window applications for a total of \$2.895 billion, compared to 35,822 in FY2018. By September 1, 2019, USAC successfully issued Funding Commitment Decision Letters (FCDLs) for just over 95% of FY2019 workable funding requests received in window. By October 14, 2019, USAC issued FCDLs for 94% of FY2019 fiber applications.

Outreach and Trainings

In 2019, E-rate conducted 13 instructor-led training sessions to E-rate applicants and service providers, including three events dedicated to providing guidance to Tribal E-rate participants. A total of 1,068 individuals attended our E-rate trainings, where we received favorable feedback of 97.9% from attendee training evaluations. We also posted 25 online modules for our eLearning curricula. A total of 948 learners submitted evaluations throughout the year and 98.3% of respondents found the eLearning trainings helpful.

LOOKING TOWARD 2020

In December 2019, the FCC issued a Report and Order that extends the Category Two (C2) test period through FY2020, providing an additional 20% for C2 budgets to all applicants for this transition year.

New rules take effect in FY2021 when then C2 budgets will be reset for the next five-year cycle.

High Cost Program

High Cost expands networks in underserved areas so that all people in the U.S. have access to affordable voice and broadband.



High Cost Program

The High Cost program provides funding to telecommunications carriers to deliver service in rural areas where the market alone cannot support the substantial cost of deploying network infrastructure and delivering connectivity. Historically, High Cost has funded voice service to maintain reasonably comparable rates in urban and rural areas.

The FCC has modernized the program with the broadband-focused Connect America Fund (CAF) and Rural Digital Opportunity Fund (RDOF) to help ensure that rural, insular, and isolated parts of the country are not left behind in the digital age.

HIGHLIGHTS

Launched Modernized Funds

USAC's High Cost Division began disbursing support for several revised and new CAF programs that award model-based monthly payments to carriers to build out broadband to a defined number of locations in eligible areas. These were Revised Alternative Connect America Cost Model (Revised A-CAM) and A-CAM II, both established by the 2018 Rate of Return Order, and CAF Phase II Auction, which provides support in high-cost areas and areas where the incumbent carrier declined CAF II Model funding.

Implemented New System Functionality

High Cost made important enhancements to the High Cost Universal Broadband (HUBB) portal, a system that collects data showing where carriers are deploying mass-market, high-speed Internet service using CAF support. High Cost added the new CAF programs to the system and implemented new functionality to let carriers edit and delete certified data in bulk.

Confirmed Broadband Deployment

High Cost completed test work to verify broadband deployment at a random sample of CAF II Model and Alaska Communications System (ACS) locations reported in the HUBB for 2018. CAF II carriers faced a 60% build-out milestone as of the end of 2018,

while ACS faced a 30% milestone. The team also continued ongoing verification work for the Rural Broadband Experiments (RBE) program.

Prepared for Network Performance Testing

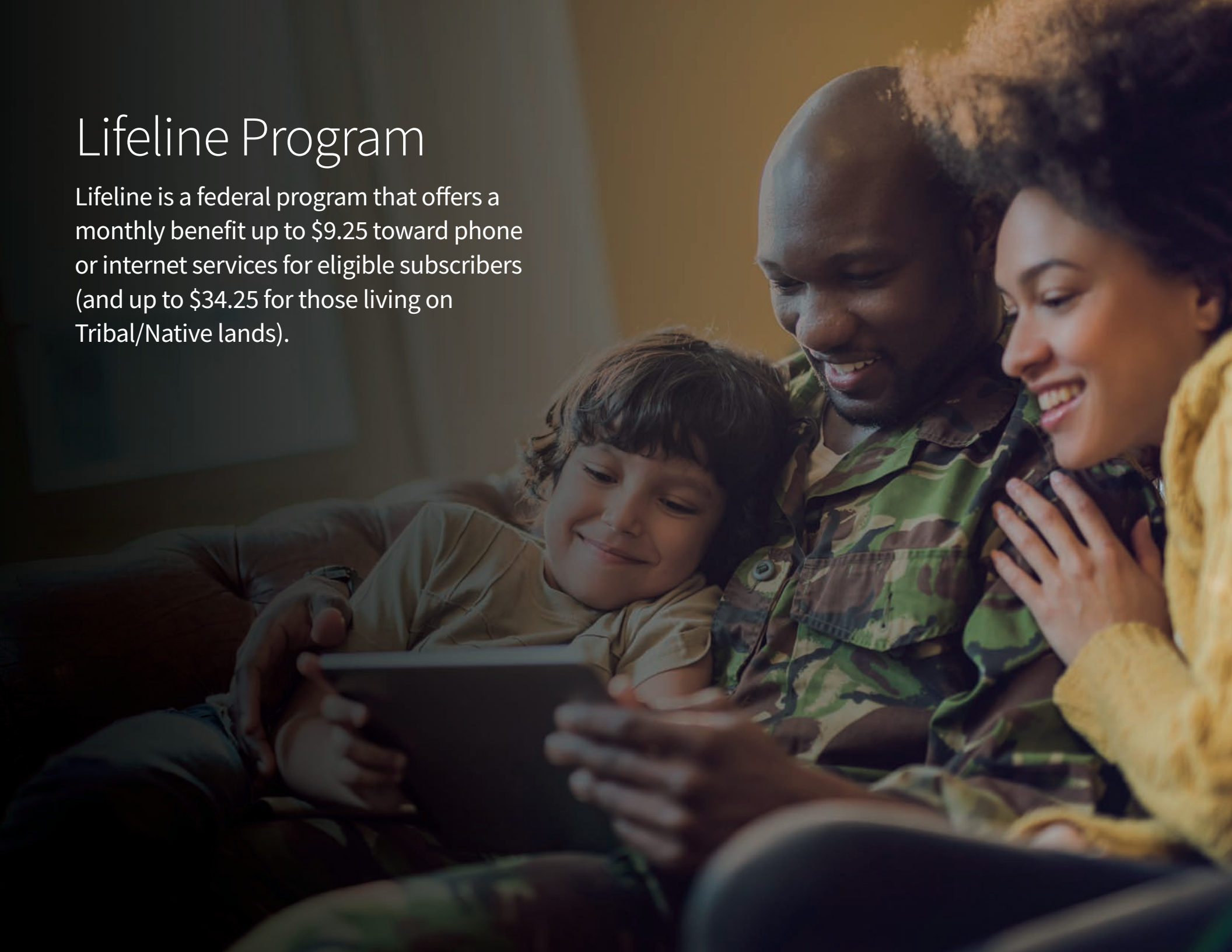
High Cost began implementing the Performance Measures Orders, which require carriers to conduct speed and latency testing of CAF-funded networks. The program is developing a new system to let carriers identify which locations in the HUBB have active subscribers and generate a random sample of those locations for testing.

LOOKING TOWARD 2020

Modernization will drive the agenda again in 2020 as work continues on all these fronts and High Cost prepares to implement RDOF, which will use two phases of reverse auctions to invest \$20.4 billion over 10 years to expand broadband in unserved areas.

Lifeline Program

Lifeline is a federal program that offers a monthly benefit up to \$9.25 toward phone or internet services for eligible subscribers (and up to \$34.25 for those living on Tribal/Native lands).



Lifeline Program

Voice and broadband connectivity are crucial to sustaining digital participation in today's world. Support from USAC's Lifeline Program enables telecommunication companies to offer these services at discounted rates to eligible consumers.

HIGHLIGHTS

National Verifier: Accurate, Automatic Qualification to Lifeline Consumers

The Lifeline National Eligibility Verifier (National Verifier), now launched in all 56 states and territories, is a centralized system that determines whether subscribers are eligible for Lifeline. The National Verifier's connections with state and federal databases allow eligible consumers to automatically qualify for Lifeline. In 2019, an additional seven-state automated connections were established with the National Verifier, bringing the total number of state connections to 15.

A federal connection with the Center for Medicaid and Medicare (CMS) was established in the third quarter. This connection, along with the U.S. Department of Housing and Urban Development (HUD) connection and state database connections, means that an average of 68% of Lifeline applications are now automatically qualified through database checks nationwide. These connections are crucial as automated eligibility decisions can be made swiftly, at a lower administrative cost, and with a high level of accuracy by using source data and limited human review wherever possible.

Improved Processes for Carriers and Consumers

Lifeline provides assistance to service providers and customers through the Lifeline Support Center. In 2019, the support center saw improved performance and lower wait times, while responding to 658,929 calls and processing almost 1.6 million NV applications.

Over the course of the year, Lifeline met with many stakeholders, conducted multiple trainings and listened to feedback. To date, Lifeline conducted over 85 webinars and trainings and developed new training modules available on the USAC website. In addition, the release of the National Verifier carrier eligibility check APIs in the fourth quarter was a direct result of such interactions. The APIs allow service providers to integrate their own enrollment platforms directly with the National Verifier. With this release, carriers are able to provide a more seamless delivery of the Lifeline program to consumers.

Enhanced Program Integrity

The Representative Accountability Database (RAD) was introduced in 2019 to guard against human error and manipulation of enrollment information. RAD is a registration system that validates the identities of service provider representatives performing transactions in Lifeline systems.

The 2019 Order requires Lifeline to confirm subscriber eligibility during the recertification process, share more aggregate subscribership data publicly, and work closely with state commissions to identify and combat waste, fraud, and abuse.

LOOKING TOWARD 2020

Lifeline continues to work with states to establish database connections, and are in discussions with 12 additional states about connections to the NV in 2020 and beyond. Processes continue to benefit from stakeholder input, and through our Lifeline Support Center, Lifeline is exploring opportunities to better serve consumers and service providers.

Rural Health Care Program

Rural Health Care supports health care facilities to bring world-class medical care to rural areas through increased connectivity.



Rural Health Care Program

The Rural Health Care (RHC) Program distributes over \$590 million annually to eligible rural health care providers to help fund broadband and telecommunications services necessary for the provision of health care. With subsidized support from the Rural Health Care Program, telehealth services are made affordable in rural communities, promoting the future of health care in geographically hard to reach and underserved areas.

HIGHLIGHTS

Customer Care

The RHC Help Desk continued its success in 2019 with an abandon rate of 1.7% against a target of 3.0%. Quality monitoring scores also improved from 94.4% to 95.9% in 2019, the highest score since the external call center launched in 2018. RHC solicited direct applicant feedback on their experiences with program resources. Feedback was applied in the rollout of both the updated public website and the first phase of the RHC Open Data platform. Both initiatives successfully provided applicants with easier to use support tools and a more streamlined customer experience.

Applicant Trainings

RHC enhanced applicant trainings by adding tailored resources, learning objectives, glossaries, and new introductory webinars. RHC conducted 13 webinars with the highest combined attendance

level since 2017. Topics ranged from best practices for starting and managing consortia to introductory trainings for service providers. Within the last year, the overall webinar satisfaction score rating has increased from 4.18 to 4.4 out of 5. In 2019, the FCC released FCC Report and Order 19-78, which set forth reforms to promote transparency and predictably in the RHC Program and further the efficient allocation of limited program resources. RHC provided timely information, trainings, and resources to ensure applicants were informed and prepared for program changes.

Operational Improvement

RHC focused on documenting and memorializing all aspects of RHC Program administration, which involved a yearlong effort to capture end-to-end review processes and procedures. The result is a streamlined, high level overview of the entire program that serves as an aligned, uniform internal resource on standardized procedures and trainings from pre-commitments to audit.

Community Outreach

The RHC team attended nine rural/telehealth conferences, conducting in-person trainings and presentations. While attending these conferences, RHC also traveled to nearby participating health care provider sites, engaging with program applicants and rural communities. RHC also participated in video conferences with other federal programs aiming to educate rural communities on telehealth funding opportunities.

LOOKING TOWARD 2020

RHC anticipates processing and completing program forms at an increased velocity, including faster review of 2019 funding request forms and appeals. RHC will also implement program reforms as directed by the FCC in Report and Order 19-78, which streamlines program deadlines and processes. As part of these reforms, RHC will be launching a database of rural and urban rates for the Telecommunications Program beginning in funding year 2021.

USAC Contractors Receiving Greater Than \$1 Million

CONTRACTOR/VENDOR	TYPES OF GOODS/SERVICES	PROCUREMENT METHOD
MAXIMUS Federal Services, Inc.	E-rate Operational Support Services	Competitive
Cigna Healthcare	Employee Benefits	Competitive
NTCA Group Health Program	Employee Benefits	Competitive
Conduent State & Local Solutions	Lifeline National Verifier Business Process Outsourcing Services	Competitive
Jamestown Premier One Metro Center Corp	Office Lease	Competitive
Accenture Federal Service LLC	Lifeline National Verifier Eligibility Database System	Competitive
Incentive Technology Group, LLC	EPC Consulting and IT Implementation Services	Competitive
Ampcus Inc.	IT Staff Augmentation Services	Competitive
Deloitte Consulting LLP	E-rate Project Management and Business Process Outsourcing Change Management Services	Competitive
Hirestrategy	IT Staff Augmentation Services	Competitive
ManpowerGroup Public Sector Inc.	IT Staff Augmentation Services	Competitive
KPMG LLP	Audit Services/IT Security Services	Competitive
Powersolv	IT Staff Augmentation Services	Competitive
Clearpath Solutions Group LLC	Various IT Systems, Hardware, and Software Solutions	Competitive
Appian Corporation	Appian Operations, Maintenance, and Cloud Services	Competitive
Oracle America, Inc.	IT Software Solution	Noncompetitive
Center for Medicare and Medicaid Services (CMS)	Development and Maintenance of API for Connection to Lifeline National Verifier	Noncompetitive
PricewaterhouseCoopers, LLP	Financial Statement Audit and Agreed Upon Procedure Review	Competitive
PriceWaterhouseCoopers Advisory Services LLC	Programmatic Forensic Audit Services	Competitive
CliftonLarsonAllen LLP	Beneficiary & Contributor Audit Program	Competitive
The Guardian Life Insurance Company of America	Employee Benefits	Competitive
Sutherland Government Solutions, Inc.	Enterprise Call Center Services	Competitive
JP Morgan Chase Bank	USAC Banking Services	Competitive

In 2019, USAC engaged 23 contractors receiving payments greater than \$1 million. USAC follows competitive procurement procedures for any procurement that exceeds a \$10,000 purchase threshold. Any non-competitive procurement that exceeds the \$10,000 purchase threshold must be reported to the FCC and USAC's Board of Director's annually in a Competition Advocate report.

The chart details USAC's 2019 contractors receiving payments of \$1 million or greater. All contractors receiving payments greater than \$1 million have been assessed and their work has been deemed to be satisfactory or better.

KEY Dollar Range: □ > \$5M ■ \$2-5M ■ \$1-2M

Report of Independent Auditors

To the Board of Directors of Universal Service Administrative Company:

Report on the Financial Statements

We have audited the accompanying financial statements of Universal Service Administrative Company (the “Company”), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of operations and change in unrestricted net assets and cash flows for the years then ended.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its operations and change in unrestricted net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional combining supplemental schedules of financial position applicable to the

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we also have issued a report dated June 6, 2019 on our consideration of the Company’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2018. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Company’s internal control over financial reporting and compliance and other matters.


McLean, Virginia
June 6, 2019

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QUARTERLY BREAK DOWN OF RECEIPTS AND OUTLAYS FOR THE 2017-2019 CALENDAR YEARS

PROGRAMS	2019 DETAILS	1Q19	2Q19	3Q19	4Q19	2019 TOTAL
USF	TOTAL Receipts from Operations	2,049,827,570.29	1,964,211,010.44	2,164,980,169.38	2,210,526,129.19	\$8,389,544,879.30
E-RATE	Disbursements from Operations	(394,769,190.33)	(471,079,025.69)	(585,346,940.49)	(513,367,386.02)	\$(1,964,562,542.53)
	Administrative Transfers	(19,976,443.58)	(21,954,343.97)	(24,931,526.87)	(20,449,138.21)	\$(87,311,452.62)
HIGH COST	Disbursements from Operations	(1,143,936,590.97)	(1,333,176,226.27)	(1,327,619,526.67)	(1,284,927,756.59)	\$(5,089,660,100.50)
	Administrative Transfers	(15,520,441.83)	(11,231,009.13)	(10,748,477.86)	(11,431,664.32)	\$(48,931,593.14)
LIFELINE	Disbursements from Operations	(270,212,372.03)	(254,100,299.09)	(242,948,438.30)	(47,081,355.96)	\$(814,342,465.38)
	Administrative Transfers	(8,156,360.84)	(10,430,832.47)	(13,224,184.59)	(10,601,052.23)	\$(42,412,430.13)
RHC	Disbursements from Operations	(36,885,196.43)	(52,537,331.64)	(107,591,374.68)	(51,781,547.14)	\$(248,795,449.90)
	Administrative Transfers	(2,143,277.31)	(3,124,138.36)	(3,404,266.20)	(3,234,012.45)	\$(11,905,694.32)
TOTAL	TOTAL Disbursements from Operations	(1,845,803,349.76)	(2,110,892,882.68)	(2,263,506,280.14)	(1,897,158,045.72)	\$(8,117,360,558.30)
	TOTAL Administrative Transfers ¹	(45,796,523.56)	(46,740,323.92)	(52,308,455.52)	(45,715,867.21)	\$(190,561,170.21)

PROGRAMS	2018 DETAILS	1Q18	2Q18	3Q18	4Q18	2018 TOTAL
USF	TOTAL Receipts from Operations	2,094,377,369.20	2,033,202,792.86	1,985,647,458.39	2,045,939,389.78	\$8,159,167,010.23
E-RATE	Disbursements from Operations	(569,838,691.32)	(462,226,768.81)	(594,773,887.97)	(549,081,249.89)	\$(2,175,920,597.99)
	Administrative Transfers	(20,041,236.51)	(24,418,055.52)	(21,980,140.59)	(18,960,038.93)	\$(85,399,471.55)
HIGH COST	Disbursements from Operations	(1,132,297,820.58)	(1,138,163,559.99)	(1,247,848,558.82)	(1,318,529,460.56)	\$(4,836,839,399.96)
	Administrative Transfers	(14,827,780.64)	(18,971,295.31)	(17,077,188.54)	(14,730,759.27)	\$(65,607,023.76)
LIFELINE	Disbursements from Operations	(304,329,045.67)	(302,242,211.56)	(282,441,521.64)	(274,797,099.50)	\$(1,163,809,878.37)
	Administrative Transfers	(7,455,703.26)	(9,969,866.32)	(8,974,468.22)	(7,741,363.90)	\$(34,141,401.70)
RHC	Disbursements from Operations	(19,904,858.73)	(62,609,273.52)	(82,675,452.72)	(131,644,800.76)	\$(296,834,385.72)
	Administrative Transfers	(2,247,506.98)	(2,619,818.89)	(2,358,254.42)	(2,034,227.02)	\$(9,259,807.31)
TOTAL	TOTAL Disbursements from Operations	(2,026,370,416.29)	(1,965,241,813.88)	(2,207,739,421.15)	(2,274,052,610.72)	\$(8,473,404,262.04)
	TOTAL Administrative Transfers ¹	(44,572,227.39)	(55,979,036.04)	(50,390,051.77)	(43,466,389.12)	\$(194,407,704.32)

PROGRAMS	2017 DETAILS	1Q17	2Q17	3Q17	4Q17	2017 TOTAL
USF	TOTAL Receipts from Operations	2,022,513,117.48	1,957,055,284.04	1,875,810,962.05	1,968,118,197.15	\$7,823,497,560.72
E-RATE	Disbursements from Operations	(633,430,525.05)	(748,374,178.82)	(685,109,151.72)	(552,468,760.98)	\$(2,619,382,616.57)
	Administrative Transfers	(23,900,455.98)	(26,849,205.21)	(23,444,455.90)	(20,608,433.65)	\$(94,802,550.74)
HIGH COST	Disbursements from Operations	(1,140,525,428.62)	(1,158,489,925.86)	(1,174,230,735.65)	(1,194,901,045.13)	\$(4,668,147,135.26)
	Administrative Transfers	(16,296,733.53)	(18,598,311.67)	(16,319,672.68)	(14,345,519.18)	\$(65,560,237.06)
LIFELINE	Disbursements from Operations	(332,953,890.35)	(314,944,153.49)	(309,052,829.70)	(310,527,534.85)	\$(1,267,478,408.39)
	Administrative Transfers	(7,704,910.70)	(8,825,231.53)	(7,434,685.29)	(6,784,087.89)	\$(30,748,915.41)
RHC	Disbursements from Operations	(43,144,014.23)	(79,230,982.75)	(98,398,605.47)	(40,424,375.12)	\$(261,197,977.57)
	Administrative Transfers	(2,853,064.66)	(3,162,150.50)	(3,046,483.81)	(2,429,198.16)	\$(11,490,897.13)
TOTAL	TOTAL Disbursements from Operations	(2,150,053,858.25)	(2,301,039,240.92)	(2,266,791,322.54)	(2,098,321,716.08)	\$(8,816,206,137.79)
	TOTAL Administrative Transfers ¹	(50,755,164.87)	(57,434,898.91)	(50,245,297.68)	(44,167,238.88)	\$(202,602,600.34)

¹Administrative transfers represent actual funds transferred from USF to USAC in support of administrative costs.

Administrative transfers and administrative expenses may differ due to timing between when expense is recognized versus the actual transfer of cash.

MONTHLY BREAK DOWN OF RECEIPTS AND OUTLAYS FOR THE 2019 CALENDAR YEAR

PROGRAMS	DETAILS	JAN 19	FEB 19	MAR 19	APRIL 19	MAY 19	JUNE 19	JULY 19	AUG 19	SEP 19	OCT 19	NOV 19	DEC 19	TOTAL
USF	TOTAL Receipts from Operations	694,857,861.11	674,733,858.94	680,235,850.24	681,451,463.17	646,060,222.06	636,699,325.21	648,296,169.89	759,075,451.60	757,608,547.89	761,385,263.54	721,375,427.20	727,765,438.45	\$8,389,544,879.30
E-RATE	Disbursements from Operations	(141,177,508.08)	(122,648,358.80)	(130,943,323.45)	(166,799,895.26)	(168,519,479.28)	(135,759,651.15)	(213,894,311.16)	(172,195,772.01)	(199,256,857.32)	(245,478,015.72)	(135,570,743.10)	(132,318,627.20)	\$(1,964,562,542.53)
	Administrative Transfers	(7,250,792.23)	(7,109,054.94)	(5,616,596.41)	(8,759,240.77)	(7,199,981.67)	(5,995,121.53)	(9,138,523.49)	(8,475,352.99)	(7,317,650.39)	(3,854,556.12)	(6,952,552.98)	(9,642,029.11)	\$(87,311,452.62)
HIGH COST	Disbursements from Operations	(379,598,941.40)	(371,341,473.84)	(392,996,175.73)	(390,328,918.25)	(545,780,340.10)	(397,066,967.91)	(401,134,287.16)	(411,969,083.09)	(514,516,156.42)	(426,172,008.66)	(434,187,715.98)	(424,568,031.95)	\$(5,089,660,100.50)
	Administrative Transfers	(5,633,410.10)	(5,523,289.13)	(4,363,742.60)	(4,360,120.07)	(3,648,812.92)	(3,222,076.14)	(6,593,287.25)	(2,599,618.49)	(1,555,572.12)	(2,823,660.48)	(3,704,779.80)	(4,903,224.04)	\$(48,931,593.14)
LIFELINE	Disbursements from Operations	(90,743,423.03)	(92,771,658.00)	(86,697,291.00)	(85,958,473.20)	(84,550,261.59)	(83,591,564.30)	(85,042,519.08)	(82,979,706.61)	(74,926,212.61)	(66,569,100.61)	(72,322,497.10)	91,810,241.74	\$(814,342,465.38)
	Administrative Transfers	(2,960,490.82)	(2,902,619.63)	(2,293,250.39)	(3,892,351.57)	(3,736,941.75)	(2,801,539.15)	(5,469,000.44)	(3,960,571.89)	(3,794,612.26)	(3,145,541.54)	(3,808,716.67)	(3,646,794.02)	\$(42,412,430.13)
RHC	Disbursements from Operations	(11,888,623.89)	(8,336,672.51)	(16,659,900.03)	(20,237,423.83)	(17,619,339.45)	(14,680,568.35)	(37,842,696.01)	(30,764,700.70)	(38,983,977.97)	(12,999,864.56)	(17,333,985.90)	(21,447,696.68)	\$(248,795,449.90)
	Administrative Transfers	(777,939.19)	(762,732.17)	(602,605.95)	(1,144,022.74)	(997,256.80)	(982,858.82)	(1,624,158.48)	(1,080,331.03)	(699,776.69)	(834,916.04)	(1,113,447.39)	(1,285,649.02)	\$(11,905,694.32)
TOTAL	TOTAL Disbursements from Operations	(623,408,496.40)	(595,098,163.15)	(627,296,690.21)	(663,324,710.55)	(816,469,420.42)	(631,098,751.71)	(737,913,813.41)	(697,909,262.41)	(827,683,204.32)	(751,218,989.55)	(659,414,942.08)	(486,524,114.09)	\$(8,117,360,558.30)
	TOTAL Administrative Transfers ¹	(16,622,632.34)	(16,297,695.87)	(12,876,195.35)	(18,155,735.14)	(15,582,993.14)	(13,001,595.64)	(22,824,969.66)	(16,115,874.40)	(13,367,611.46)	(10,658,674.18)	(15,579,496.84)	(19,477,696.19)	\$(190,561,170.21)

¹ Administrative transfers represent actual funds transferred from USF to USAC in support of administrative costs.

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