



Board of Directors

Briefing Book

Tuesday, January 30, 2018

8:30 a.m. - 2:30 p.m. Eastern Time

Universal Service Administrative Company Offices

700 12th Street, N.W., Suite 900

Washington, D.C. 20005

**Universal Service Administrative Company
Board of Directors Quarterly Meeting
Agenda**

**Tuesday, January 30, 2018
8:30 a.m. – 2:30 p.m. Eastern Time
USAC Offices
700 12th Street, N.W., Suite 900
Washington, D.C. 20005**

| | <u>OPEN SESSION</u> | <i>Estimated Duration in Minutes</i> |
|---------|--|--|
| Chair | a1. Consent Items (each available for discussion upon request): A. Approval of Board of Directors Meeting Minutes of October 24, 2017, November 13, 2017, November 16, 2017, November 17, 2017, November 28, 2017, December 21, 2017, and January 5, 2018. B. Resolution Honoring a Board Member Whose Service on the Board Has Recently Ended. C. Approval of moving all <i>Executive Session</i> Items into <i>Executive Session</i> . | 5 |
| Chair | a2. Reports from the Committee Chairs: Audit Committee, Executive Committee, Executive Compensation Committee, High Cost & Low Income Committee, Rural Health Care Committee, and Schools & Libraries Committee. | 10 |
| Chair | a3. Annual Election of Board Members to Committees, Election of Committee Chairs and Vice Chairs and Appointment of Corporate Officers. | 10 |
| Wayne | a4. Approval of 2018 Audit Committee Charter. <i>Same as aAC03</i> | 5 |
| Charlie | a5. Approval of 2 nd Quarter 2018 USAC Common and Consolidated Budgets and Demand Projections. | 10 |
| Radha | a6. Approval of April 2019 – January 2020 Board of Directors Quarterly Meeting Schedule. | 5 |
| Wayne | i1. Business Update: A. Investment Committee Update (Information Only). B. Finance Update with Exhibits (Information Only). D. Lifeline Improper Payment Rate. | D. – 10 |

| <u>EXECUTIVE SESSION</u> | | |
|---------------------------------|---|---------|
| Tamika | i1. Business Update Continued – Confidential – <i>Executive Session Recommended</i> . | C. – 30 |

| | | |
|------------------------------|--|---------|
| Ernesto | C. Engagement Survey Update. E. OGC Update. | E. – 10 |
| Mark | i2. Information on USAC 2017 Annual Report to the FCC and Congress. – Confidential – Executive Session Recommended. <i>Same as iEC01cf</i> | 5 |
| Radha Kyle | a7. Information Technology Working Group - Confidential – Executive Session Recommended. | 10 |
| Charlie | a8. Approval of 2018 Annual USAC Common and Consolidated Budgets – Confidential – Executive Session Recommended. <i>Same as iEC02cf</i> | 25 |
| Craig | a9. Procurements – Confidential – Executive Session Recommended. A. Consideration of Contract Award for Oracle Licenses. B. Consideration of 2017 True-up Payment for Dell/EMC Avamar Licenses. C. Consideration of Contract Award for Benefits Broker. | 20 |
| Craig | i3. General Procurement Updates – Confidential – Executive Session Recommended. A. 2017 Fourth Quarter Procurement Report. B. 2017 Annual Procurement Report. C. 2017 Competition Advocate Annual Report. D. 2018 Annual Procurement Plan. | 20 |
| Fred Theobald | i4. Contributors Business Update – Confidential – Executive Session Recommended. | 15 |
| Nikki- Blair Carpenter | i5. Information on Four USAC Internal Audit Division Universal Service Contributor Revenue Audit Reports – Confidential – Executive Session Recommended. | 10 |
| Chair | i6. Executive Session (Lunch) with Board Only – Confidential – Executive Session Recommended. | 60 |
| Tamika | (Post Lunch) a10. Personnel Matter - Consideration of 2018 Merit-Based Salary and Incentive Awards Program for USAC Employees. A. Consideration of a USAC Compensation Policy. Confidential – Executive Session Recommended | 20 |
| Tamika | a11. USAC Transit Benefits – Confidential – Executive Session Recommended. | 10 |
| Chair | i7. Discussion of FCC-USAC Executive Committee Quarterly Meeting – Confidential – Executive Session Recommended. | 35 |

Next USAC Board of Directors Meeting

Tuesday, April 24, 2018
8:30 a.m. – 2:30 p.m. Eastern Time
USAC Offices, Washington, D.C.

Universal Service Administrative Company Board of Directors Meeting

ACTION ITEM

Consent Items

Action Requested

The USAC Board of Directors (Board) is requested to approve the consent items listed below.

Discussion

The Board is requested to approve the following items using the consent resolutions below:

- A. Board meeting minutes of October 24, 2017, November 13, 2017, November 16, 2017, November 17, 2017, November 28, 2017, December 21, 2017, and January 5, 2018 (*see Attachments A-1 through A-7*).
- B. Resolution Honoring a Board Member Whose Service on the Board Has Recently Ended.

The Board would like to recognize and honor Dr. Brian Talbott whose terms has recently concluded. As a founding member of the Schools and Libraries Corporation and the USAC Board of Directors, Dr. Talbott's leadership, knowledge, dedication, and guidance will be greatly missed.

- C. Approval for discussing in *Executive Session* agenda items:
 - (1) **i1** – Business Update Continued.
 - **C.** Engagement Survey Update. USAC management recommends that this report be discussed in *Executive Session* because it involves *personnel matters*.
 - **E.** OGC Update. USAC management recommends that this report be discussed in *Executive Session* because it involves *internal personnel matters and attorney/client privileged communications*.
 - (2) **i2** – Information on USAC 2017 Annual Report to the FCC and Congress. USAC management recommends that this item be discussed in *Executive Session* because it involves *specific internal controls, and/or confidential company data*.
 - (3) **a7** – Information Technology Working Group. USAC management recommends that discussion of this item occur in *Executive Session* because it involves *specific internal controls, and/or confidential company data*.
 - (4) **a8** – Approval of 2018 Annual USAC Common and Consolidated Budgets. USAC management recommends this item be discussed in

Executive Session because it relates to USAC's *procurement strategy and contract administration*.

- (5) **a9** – Procurements. USAC management recommends that the following items be discussed in *Executive Session* because they relate to USAC's *procurement strategy and contract administration*.
 - **A.** Consideration of Contract Award for Oracle Licenses.
 - **B.** Consideration of 2017 True-up Payment for Dell/EMC Avamar Licenses.
 - **C.** Consideration of Contract Award for Benefits Broker.
- (6) **i3** – General Procurement Updates. USAC management recommends that this report be discussed in *Executive Session* because it relates to USAC's *procurement strategy and contract administration*.
- (7) **i4** – Contributors Business Update. USAC management recommends that this report be discussed in *Executive Session* because it relates to *internal controls, and/or confidential company data, and may also include pre-decisional matters pending before the FCC. In addition, 47 C.F.R. § 54.711(b) requires USAC to keep all data obtained from contributors confidential*.
- (8) **i5** – Information on Four USAC Internal Audit Division Universal Service Contributor Revenue Audit Reports. USAC management recommends these reports be discussed in *Executive Session* because they relate to *specific internal controls and/or confidential company data* that would constitute a discussion of internal rules and procedures. In addition, *47 C.F.R. § 54.711(b) requires USAC to keep all data obtained from contributors confidential*.
- (9) **i6** – Executive Session (Lunch) with Board Only. USAC management recommends that this item be discussed in *Executive Session* because it involves *internal personnel matters*.
- (10) **a10** – Personnel Matter – Consideration of 2018 Merit-Based Salary and Incentive Awards Program for USAC Employees and Consideration of a USAC Compensation Policy. USAC management recommends that this item be discussed in *Executive Session* because it involves *internal personnel matters*.
- (11) **a11** – Personnel Matter – USAC Transit Benefits. USAC management recommends that this item be discussed in *Executive Session* because it involves *internal personnel matters*.
- (12) **i7** – Discussion of FCC-USAC Executive Committee Quarterly Meeting. USAC management recommends that this item be discussed in *Executive Session* because it may include *confidential company data, and pre-decisional matters pending before the FCC*.

Upon request of a Board member, any one or more of the above items are available for discussion by the Board.

Recommended USAC Board of Directors Action

APPROVAL OF THE FOLLOWING RESOLUTIONS:

RESOLVED, that the USAC Board of Directors hereby approves:
(1) the Board meeting minutes of October 24, 2017, November 13, 2017, November 16, 2017, November 17, 2017, November 28, 2017, December 21, 2017, and January 5, 2018, and (2) discussion in *Executive Session* of the items noted above.

RESOLVED, that the USAC Board of Directors hereby expresses its sincere appreciation to Dr. Brian Talbott for his dedicated service on the Board of Directors of the Universal Service Administrative Company and wish him the best in his future endeavors.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

BOARD OF DIRECTORS MEETING
Tuesday, October 24, 2017

(DRAFT) MINUTES¹

The quarterly meeting of the USAC Board of Directors (Board) was held at USAC's offices in Washington, D.C. on Tuesday, October 24, 2017. Dr. Brian Talbott, Board Chair, called the meeting to order at 8:30 a.m. Eastern Time, with a quorum of 17 of the 19 Board members present:

| | |
|-------------------|----------------------------|
| Bocher, Robert | Hernandez, Dr. Mike |
| Brisé, Ronald | Jacobs, Ellis – Secretary |
| Buzacott, Alan | Kinser, Cynthia |
| Choroser, Beth | Lubin, Joel – Vice Chair |
| Domenech, Dr. Dan | Mason, Ken |
| Feiss, Geoff | Talbott, Dr. Brian – Chair |
| Fontana, Brent | Tinic, Atilla |
| Gerst, Matthew | Wein, Olivia |
| Gillan, Joe | |

Ms. Vickie Robinson, Acting Chief Executive Officer, General Counsel and Assistant Secretary, joined the meeting at 8:35 a.m. She did not participate in the discussion of, or vote on item a1.

Members of the Board not present:

Wibberly, Dr. Kathy

Officers of the corporation present:

Davis, Craig – Vice President of Schools & Libraries
Gaither, Victor – Vice President of High Cost
Garber, Michelle – Vice President of Lifeline
Salvator, Charles – Vice President of Finance, Chief Financial Officer and
Assistant Treasurer
Scott, Wayne – Vice President of Internal Audit
Sweeney, Mark – Chief Operating Officer

¹ Draft resolutions were presented to the Board prior to the Board meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language where necessary or to correct grammatical or spelling errors.

Others present:

| <u>NAME</u> | <u>COMPANY</u> |
|---|------------------|
| Augustino, Steve | Kelley Drye |
| Beaver, Tracey | USAC |
| Beckford, Ernesto | USAC |
| Butler, Stephen | USAC |
| Carpenter, Nikki-Blair | USAC |
| Crowe, Jennifer | USAC |
| Diephouse, Greg | USAC |
| Ejaz, EJ | USAC |
| Francisco, Dale | USAC |
| Goode, Vernell | USAC |
| Guinan, Gabriela Gross | USAC |
| Hutchinson, Kyle | USAC |
| Johnson, William | USAC |
| Lechter, Jonathan – <i>by telephone</i> | FCC |
| Lutz, Corey | USAC |
| McCornac, Carolyn | USAC |
| Miller, Jack | Solix |
| Mitchell, Tamika | USAC |
| Modecki, Richard | Odgers Berndtson |
| Nuzzo, Patsy | USAC |
| Pilsch, Tracey | USAC |
| Schecker, Laurence | USAC |
| Schrieber, Johnnay | USAC |
| Sequin, Eric | Solix |
| Theobald, Fred | USAC |
| Tomlin, Nicole | USAC |
| Wilkinson, Derek | Odgers Berndtson |

OPEN SESSION

- a1. Consent Items.** Dr. Talbott presented these items to the Board.
- A. Approval of Board meeting minutes of July 25, 2017 and September 28, 2017.
 - B. Approval for discussing in *Executive Session* agenda items:
 - (1) **a5** – Consideration of a Contract Award for Call Center Services. USAC management recommends this item be discussed in *Executive Session* because this matter relates to USAC’s *procurement strategy and contract administration*.
 - (2) **i2.** – Procurement Related Reports. USAC management recommends this item be discussed in *Executive Session* because

this matter relates to USAC's *procurement strategy and contract administration*.

- (3) **i3** – Information on Preliminary 2018 Annual USAC Common and Consolidated Budgets. USAC management recommends that this matter be discussed in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration*.
- (4) **i4** – Quarterly Report on USF Contribution Matters. USAC management recommends that this matter be discussed in *Executive Session* because the report relates to *internal controls, and/or confidential company data, and may also include pre-decisional matters pending before the FCC. In addition, 47 C.F.R. § 54.711(b) requires USAC to keep all data obtained from contributors confidential*.
- (5) **i5** – Information on Nine USAC Internal Audit Division Universal Service Contributor Revenue Audit Reports. USAC management recommends this item be discussed in *Executive Session* because the reports relate to *specific internal controls and/or confidential company data* that would constitute a discussion of internal rules and procedures. In addition, *47 C.F.R. § 54.711(b) requires USAC to keep all data obtained from contributors confidential*.
- (6) **i6** – Executive Session (Lunch) with Board Only. USAC management recommends that discussion of this item includes personnel matters and therefore should occur in *Executive Session* consistent with USAC's long-standing practice and to preserve privacy.
- (7) **i7** – Personnel Matter. Consistent with USAC's long-standing practice and to preserve privacy, USAC management recommends this item be discussed in *Executive Session*. This matter is also subject to *attorney/client privilege*.

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

RESOLVED, that the USAC Board of Directors hereby approves the Board meeting minutes of July 25, 2017 and September 28, 2017 and discussion in *Executive Session* of the items noted above.

- a2. **Reports from Committee Chairs: Audit Committee, Executive Committee, Executive Compensation Committee, High Cost & Low Income Committee, Investment Committee, Rural Health Care Committee, and Schools & Libraries Committee.** The committee chairs reported on matters discussed and actions taken by their respective committees since the July 2017 quarterly meetings. Mr. Gillan reported for the Audit Committee; Dr. Talbott reported for the Executive Committee; Mr. Lubin reported for the Executive Compensation Committee and the High Cost & Low Income Committee; Mr. Brisé reported for

the Rural Health Care Committee; and Dr. Domenech reported for the Schools and Libraries Committee.

- a3. Appointment of a Nominating Committee and Direction to Committees for the Appointment of Committee Chairs and Vice Chairs.** Dr. Talbott presented this item for consideration.

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

RESOLVED, that the USAC Board of Directors establishes a Nominating Committee and directs the Committee to recommend to the USAC Board of Directors at its January 30, 2018 meeting nominations for the elected USAC officer positions; and

RESOLVED FURTHER, that the USAC Board of Directors appoints **Ken Mason** as Nominating Committee chair and **Matthew Gerst** and **Olivia Wein** as members of the Nominating Committee; and

RESOLVED FURTHER, that the USAC Board of Directors directs each committee of the Board to bring to the Board at the January 30, 2018 meeting nominations for a chair and vice chair of each respective committee.

- a4. Approval of 1st Quarter 2018 USAC Common and Consolidated Budgets and Demand Projections.** Mr. Salvator presented this item for consideration. Mr. Salvatore noted that USAC is exploring its status as a not-for-profit organization to determine what would be required to become a non-profit organization. A report will be provided at the January 2018 quarterly Board of Directors meeting.

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

RESOLVED, that the USAC Board of Directors approves a 1st Quarter 2018 USAC common operating budget of \$25.43 million; and

RESOLVED FURTHER, that the USAC Board of Directors approves a 1st Quarter 2018 USAC common capital budget of \$2.56 million; and

RESOLVED FURTHER, that the USAC Board of Directors approves a 1st Quarter 2018 USAC consolidated operating budget of \$56.68 million; and

RESOLVED FURTHER, that the USAC Board of Directors approves a 1st Quarter 2018 USAC consolidated capital budget of \$4.19 million; and

RESOLVED FURTHER, that the USAC Board of Directors directs USAC staff to submit a collection requirement of \$27.99 million for USAC common costs in the required November 2, 2017 filing to the FCC on behalf of the Board of Directors.

RESOLVED FURTHER, that the USAC Board of Directors directs USAC staff to submit a collection requirement of \$60.87 million for USAC consolidated costs in the required November 2, 2017 filing to the FCC on behalf of the Board of Directors.

ii. Business Update.

A. Organizational Update on Common Services Model. Ms. Robinson introduced this item, and Mr. Sweeney presented the item to the Board for discussion.

B. Tour or Expanded Office Space. Dr. Talbott noted that the Board would be given a tour following the discussion of items a5 and items i2-i5.

C. Exhibits. The following reports were provided for informational purposes only. No discussion was held.

- Investment Committee Minutes.
- Cash and Accrual Activities.
- Universal Service Fund (USF) Cash Reserve.
- Accounts Receivable Balance.
- Audit Recovery Status Report.

At 9:46 a.m. Eastern Time, on a motion duly made and seconded, the Board moved into *Executive Session* for the purpose of discussing the confidential items listed above. The Board then recessed and reconvened at 10:03 a.m. Eastern time.

EXECUTIVE SESSION

a5. Consideration of a Contract Award for Call Center Services. Mr. Stephen Butler, Senior Director of Customer Service, presented this item for consideration. USAC management proposes consolidating the call center support services with the goal of contracting with one call center support vendor to improve program efficacy and cost-effectiveness. Mr. Butler explained that the call center would provide customer support for Schools and Libraries, Rural Health Care, and High Cost programs. Mr. Butler explained: (1) the solicitation process used by USAC to obtain proposals from call center services vendors; (2) a summary of the proposals received; and (3) the review and selection process

undertaken by USAC to select Sutherland Global Services.

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

RESOLVED, that the Board of Directors, having reviewed the recommendation of USAC management, hereby authorizes USAC management to award a contract to purchase Call Center Outsourcing Services from Sutherland Global Services for a base period of 12 months for approximately \$1,750,000 (plus applicable taxes), with the ability to exercise four additional one-year term options (subject to FCC and Board of Directors approvals), for a five year total of approximately \$7,500,000 plus an additional 10% contingency reserve per year rounded up to approximately \$750,000 over the base year and four one-year options (plus applicable taxes), also subject to required FCC approvals.

FURTHER RESOLVED, that the Board of Directors requests USAC management to seek Board approval before exercising any of option years to continue Call Center Outsourcing Services from Sutherland Global Services after the base period.

- i2. Procurement Related Reports.** Mr. Salvator provided a status update on major USAC procurements and provided a summary of the Third Quarter USAC Procurement Report.
- i3. Information on Preliminary 2018 Annual USAC Common and Consolidated Budgets.** Mr. Salvator presented this item for discussion, noting that the final 2018 annual common and consolidated budgets would be presented to the Board for consideration at the January 2018 Board meeting.
- i4. Contributors and Providers Business Update.** Mr. Theobald, Director of Financial Operations, provided a quarterly contribution factor comparison, an overview of the contribution factor trends and a rule of thumb that identified what change in the Universal Service Fund demand or contribution base would cause a 0.1 percent change in the contribution factor.
- i5. Information on Nine USAC Internal Audit Division Universal Service Contributor Revenue Audit Reports.** Ms. Carpenter, Director of Internal Audit, and Ms. Jen Crowe, Manager of Internal Audit, presented this item to the Board for discussion.
- i6. Update on CEO Search.** At 11:15 a.m. Eastern Time, the Board continued in *Executive Session* with only members of the Board and Mr. Beckford, Senior Director and Deputy General Counsel present. The subject of discussion was an update on the selection process for a Chief Executive Officer.

At 11:35 a.m. Eastern Time, Mr. Salvator gave the Board a tour of the expanded office space. The Board reconvened in Executive Session at 12:10 p.m. Eastern Time with members of the Board, Mr. Beckford and Ms. Tomlin, Manager of Talent Acquisition, present.

- i6. Executive Session with Board Only.** Mr. Lubin introduced Mr. Wilkinson and Mr. Modecki to the Board. They presented an update on the status of the CEO search and reviewed an updated timeline. Mr. Lubin requested the Board provide availability for participating in upcoming search activities.

At 1:00 p.m. Eastern Time, Ms. Robinson rejoined the Board for discussion of the following items.

- i7. Personnel Matter and Discussion of FCC-USAC Executive Committee Quarterly Meeting.** Ms. Robinson and Mr. Beckford presented an update on personnel matter.

OPEN SESSION

At 2:30 p.m. Eastern Time, on a motion duly made and seconded, the Board moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Dr. Talbott reported that in *Executive Session*, the Board took action on item a5 and discussed items i2, i3, i4, i5, i6 and i7.

- a6. Miscellaneous.** Dr. Talbott added this item to the agenda for consideration.

On a motion duly made and seconded, with Ms. Kinser abstaining from voting on her own reimbursement, and after discussion, the Board adopted the following resolutions:

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* the Board of Directors authorizes management to reimburse those Board members who travel to Washington, D.C. for the purpose of interviewing CEO candidates and any travel required for the CEO transition.

FURTHER 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* the Board of Directors authorizes management to reimburse Ms. Kinser for her additional expenses incurred during the July 2017 quarterly Board and Committee meetings.

On a motion duly made and seconded, the Board adjourned at 2:30 p.m. Eastern Time.

/s/ Ellis Jacobs
Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

BOARD OF DIRECTORS MEETING
Monday, November 13, 2017

(DRAFT) MINUTES¹

A meeting of the USAC Board of Directors (Board) was held at USAC's offices in Washington, D.C. on Monday, November 13, 2017. Dr. Brian Talbott, Board Chair, called the meeting to order at 4:00 p.m. Eastern Time, with a quorum of 14 of the 19 Board members present:

Bocher, Bob *by telephone*
Brisé, Ronald – Treasurer – *by telephone*
Buzacott, Alan – *by telephone*
Domenech, Dr. Dan – *by telephone*
Fontana, Brent – *by telephone*
Gillan, Joe – *by telephone*
Hernandez, Dr. Mike – *by telephone*
Kinser, Cynthia – *by telephone*
Lubin, Joel – Vice Chair – *by telephone*
Mason, Ken – *by telephone*
Robinson, Vickie – Acting Chief Executive Officer, General Counsel and
Assistant Secretary
Talbott, Dr. Brian – Chair – *by telephone*
Tinic, Atilla – *by telephone*
Wein, Olivia – *by telephone*

Mr. Geoff Feiss and Mr. Matthew Gerst joined the meeting at 4:03 p.m. Eastern Time and participated in the discussion and voted on all items. Ms. Beth Choroser joined the meeting at 4:20 p.m. She participated on the discussion of item i1.

Members of the Board not present:

Wibberly, Dr. Kathy
Jacobs, Ellis – Secretary

Officers of the corporation present:

Davis, Craig – Vice President of Procurement & Strategic Sourcing

¹ Draft resolutions were presented to the Board prior to the Board meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language where necessary or to correct grammatical or spelling errors.

Salvator, Charles – Vice President of Finance, Chief Financial Officer and Assistant Treasurer
Sweeney, Mark – Chief Operating Officer

Others present:

| <u>NAME</u> | <u>COMPANY</u> |
|-------------------|----------------|
| Beckford, Ernesto | USAC |
| Hutchinson, Kyle | USAC |
| Nuzzo, Patsy | USAC |

OPEN SESSION

- a1. Consideration of Contract Extensions for Information Technology Temporary Labor Agreements.** In accordance with the approved criteria and procedures for conducting Board and committee business in *Executive Session*, Ms. Robinson recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration*.

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

RESOLVED, that the USAC Board of Directors hereby approves the Committee discussing this item in *Executive Session*.

- i1. Office of General Counsel's Report on Personnel Matters.** In accordance with the approved criteria and procedures for conducting Board and committee business in *Executive Session*, Ms. Robinson recommended that discussion of this item occur in *Executive Session* because it involves *internal personnel matters and attorney/client privileged communications*.

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

RESOLVED, that the USAC Board of Directors hereby approves the Committee discussing this item in *Executive Session*.

At 4:03 p.m. Eastern Time, on a motion duly made and seconded, the Board moved into *Executive Session* for the purpose of discussing the confidential items listed above.

EXECUTIVE SESSION

- a1. Consideration of Contract Extensions for Information Technology Temporary Labor Agreements.** USAC management requested Board approval for a not-to-exceed amount of \$1.3 million for task orders associated with the

extension of the existing indefinite-delivery, indefinite-quantity (IDIQ) contracts for information technology temporary labor through February 4, 2018. Mr. Davis presented this item to the Board for consideration.

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

RESOLVED, that the USAC Board of Directors, having reviewed the recommendation of USAC management, hereby authorizes management to proceed with the extension of the existing IDIQ contracts for information technology temporary labor for a not-to-exceed amount for task orders of \$1.3 million for the period of performance through February 4, 2018.

At 4:15 p.m. Eastern Time, the Board continued in *Executive Session* with only members of the Board and Mr. Ernesto Beckford present.

i1. Office of General Counsel’s Report on Personnel Matters. Mr. Beckford, Senior Director and Deputy General Counsel, presented an update on various personnel matters.

At 4:30 p.m. Eastern Time, on a motion duly made and seconded, the Board moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Dr. Talbott reported that in *Executive Session*, the Board took action on item a1 and discussed item i1. On a motion duly made and seconded, the Board adjourned at 4:36 p.m. Eastern Time.

/s/ Ellis Jacobs
Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

BOARD OF DIRECTORS MEETING
Thursday, November 16, 2017

(DRAFT) MINUTES¹

A meeting of the USAC Board of Directors (Board) was held at USAC's offices in Washington, D.C. on Thursday, November 16, 2017. Dr. Brian Talbott, Board Chair, called the meeting to order at 4:30 p.m. Eastern Time, with a quorum of 15 of the 19 Board members present and Ms. Vickie Robinson recusing herself from the meeting. The meeting was initiated via telephone by Erica Myers from USAC's office in Washington, D.C. The following participated in the meeting via telephone:

Bocher, Bob
Brisé, Ronald – Treasurer
Buzacott, Alan
Choroser, Beth
Domenech, Dr. Dan
Feiss, Geoff
Fontana, Brent
Gerst, Matthew
Gillan, Joe
Kinser, Cynthia
Lubin, Joel – Vice Chair
Talbott, Dr. Brian – Chair
Tinic, Atilla
Wein, Olivia
Wibberly, Dr. Kathy

Members of the Board not present:

Hernandez, Dr. Mike
Jacobs, Ellis
Mason, Ken
Robinson, Vickie – Acting Chief Executive, Officer, General Counsel and
Assistant Secretary

Others present:

¹ Draft resolutions were presented to the Board prior to the Board meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language where necessary or to correct grammatical or spelling errors.

| <u>NAME</u> | <u>COMPANY</u> |
|-------------------|------------------|
| Beckford, Ernesto | USAC |
| Myers, Erica | USAC |
| Nuzzo, Patsy | USAC |
| Tomlin, Nicole | USAC |
| Wilkinson, Derek | Odgers Berndtson |

OPEN SESSION

- a1. Consideration of Candidates for the Position of Chief Executive Officer.** In accordance with the approved criteria and procedures for conducting Board and committee business in *Executive Session*, Dr. Talbott recommended that discussion of this matter occur in *Executive Session* because it *involves personnel matters*.

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

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

At 4:30 p.m. Eastern Time on a motion duly made and seconded, the Board moved into *Executive Session* for the purpose of discussing the confidential item noted above.

EXECUTIVE SESSION

- a1. Consideration of Candidates for the Position of Chief Executive Officer.** Dr. Talbott presented this item for discussion.

On September 13, 2017, the Board retained Odgers Berndtson (Odgers), a global executive search firm, to assist the Board in conducting a search for a new Chief Executive Officer (CEO). Odgers' efforts led to a list of multiple applicants for the position. Odgers screened all applicants and identified a list of 14 potential candidates, which it submitted to the Board for consideration. The Board's Executive Committee, with participation from available Board members, selected five candidates from this list to participate in first round interviews. Available Board members interviewed each of the five candidates on November 15 and 16, 2017.

After the conclusion of the first round interviews on November 16, the Board held discussions on the candidates. After discussions, the Board convened a meeting to select two candidates to participate in second round interviews with the Board, to be held on November 17, 2017.

On a motion duly made and seconded and after discussion, with Mr. Feiss, Ms.

Wein and Dr. Wibberly abstaining, each noting that they were not available to participate in all of the interviews, the Board unanimously adopted the following resolution:

RESOLVED, that the USAC Board of Directors hereby selects the two individuals identified by the Board during discussion to be invited to participate on November 17, 2017, in second round interviews with the Board for the USAC Chief Executive Officer position.

At 4:36 p.m. Eastern Time on a motion duly made and seconded, the Board moved out of *Executive Session* and reconvened in *Open Session* at which time Dr. Talbott reported that in *Executive Session*, the Board took action on item a1. On a motion duly made and seconded, the Board adjourned at 4:36 p.m. Eastern Time.

/s/ Ellis Jacobs

Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005**

**BOARD OF DIRECTORS MEETING
Friday, November 17, 2017**

(DRAFT) MINUTES¹

A meeting of the USAC Board of Directors (Board) was held at USAC's offices in Washington, D.C. on Friday, November 17, 2017. Dr. Brian Talbott, Board Chair, called the meeting to order at 12:55 p.m. Eastern Time, with a quorum of 17 of the 19 Board members present and Ms. Vickie Robinson recusing herself from the meeting. The meeting was initiated via telephone by Erica Myers from USAC's office in Washington, D.C. The following participated in the meeting via telephone:

Bocher, Bob
Brisé, Ronald – Treasurer
Buzacott, Alan
Choroser, Beth
Domenech, Dr. Dan
Feiss, Geoff
Fontana, Brent
Gerst, Matthew
Gillan, Joe
Hernandez, Dr. Mike
Jacobs, Ellis
Lubin, Joel – Vice Chair
Mason, Ken
Talbott, Dr. Brian – Chair
Tinic, Atilla
Wein, Olivia
Wibberly, Dr. Kathy

Members of the Board not present:

Robinson, Vickie – Acting Chief Executive Officer, General Counsel and
Assistant Secretary

¹ Draft resolutions were presented to the Board prior to the Board meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language where necessary or to correct grammatical or spelling errors.

Ms. Cynthia Kinser participated during the second round interviews referenced below, but did not participate in the follow-up discussion regarding the ranking of candidates. She did not vote on item a1.

Others present:

| <u>NAME</u> | <u>COMPANY</u> |
|-------------------|------------------|
| Beckford, Ernesto | USAC |
| Myers, Erica | USAC |
| Nuzzo, Patsy | USAC |
| Tomlin, Nicole | USAC |
| Wilkinson, Derek | Odgers Berndtson |

OPEN SESSION

- a1. Consideration of Candidates for the Position of Chief Executive Officer.** In accordance with the approved criteria and procedures for conducting Board and committee business in *Executive Session*, Dr. Talbott recommended that discussion of this matter occur in *Executive Session* because it *involves personnel matters*.

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

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

At 12:56 p.m. Eastern Time on a motion duly made and seconded, the Board moved into *Executive Session* for the purpose of discussing the confidential item noted above.

EXECUTIVE SESSION

- a1. Consideration of Candidates for the Position of Chief Executive Officer.** Dr. Talbott presented this item for discussion.

On September 13, 2017, the Board retained Odgers Berndtson (Odgers), a global executive search firm, to assist the Board in conducting a search for a new Chief Executive Officer (CEO). Odgers' efforts led to a list of multiple applicants for the position. Odgers screened all applicants and identified a list of 14 potential candidates, which it submitted to the Board for consideration. The Board's Executive Committee, with participation from available Board members, selected five candidates from this list to participate in first round interviews. Available Board members interviewed each of the five candidates on November 15 and 16, 2017.

After conclusion of the first round interviews on November 16, the Board held discussions on the candidates. After discussions, the Board convened a meeting, and selected two candidates to participate in second round interviews with the Board.

On November 17, 2017, the Board extensively interviewed each of the second round candidates. Following these interviews, the Board met to discuss the candidates and unanimously ranked them in order of preference.

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

RESOLVED, that the USAC Board of Directors hereby selects and ranks in order of preference two candidates for the position of Chief Executive Office. One candidate, Radha Sekar, was ranked as having a higher preference by the Board.

At 12:58 p.m. Eastern Time on a motion duly made and seconded, the Board moved out of *Executive Session* and reconvened in *Open Session* at which time Dr. Talbott reported that in *Executive Session*, the Board took action on item a1. On a motion duly made and seconded, the Board adjourned at 12:59 p.m. Eastern Time.

/s/ Ellis Jacobs
Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

BOARD OF DIRECTORS MEETING
Tuesday, November 28, 2017

(DRAFT) MINUTES¹

A meeting of the USAC Board of Directors (Board) was held at USAC's offices in Washington, D.C. on Tuesday, November 28, 2017. Dr. Brian Talbott, Board Chair, called the meeting to order at 4:05 p.m. Eastern Time, with a quorum of 13 of the 19 Board members present and Ms. Vickie Robinson recusing herself from this meeting:

Bocher, Bob *by telephone*
Brisé, Ronald – Treasurer – *by telephone*
Buzacott, Alan – *by telephone*
Choroser, Beth – *by telephone*
Gerst, Matthew – *by telephone*
Gillan, Joe – *by telephone*
Hernandez, Dr. Mike – *by telephone*
Jacobs, Ellis – *by telephone*
Kinser, Cynthia – *by telephone*
Lubin, Joel – Vice Chair – *by telephone*
Mason, Ken – *by telephone*
Talbott, Dr. Brian – Chair – *by telephone*
Wein, Olivia – *by telephone*

Dr. Kathy Wibberly joined the meeting at 4:09 p.m. Eastern Time and participated in the discussion and voted item a1.

Members of the Board not present:

Domenech, Dr. Dan
Feiss, Geoff
Fontana, Brent
Tinic, Atilla
Robinson, Vickie – Acting Chief Executive, Officer, General Counsel and
Assistant Secretary

Others present:

¹ Draft resolutions were presented to the Board prior to the Board meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language where necessary or to correct grammatical or spelling errors.

| <u>NAME</u> | <u>COMPANY</u> |
|-------------------|----------------|
| Beckford, Ernesto | USAC |
| Nuzzo, Patsy | USAC |

OPEN SESSION

- a1. Selection by Consensus of a Candidate for the Position of Chief Executive Officer.** In accordance with the approved criteria and procedures for conducting Board and committee business in *Executive Session*, Mr. Beckford recommended that discussion of this item be conducted in *Executive Session* because it *involves personnel matters*.

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

RESOLVED, that the USAC Board of Directors hereby approves the Board discussing this item in *Executive Session*.

At 4:07 p.m. Eastern Time, on a motion duly made and seconded, the Board moved into *Executive Session* for the purpose of discussing the confidential item listed above.

EXECUTIVE SESSION

- a1. Selection by Consensus of a Candidate for the Position of Chief Executive Officer.** Dr. Talbot introduced this item for consideration.

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

RESOLVED, that, pursuant to 47 CFR § 54.704(b), the USAC Board of Directors hereby selects Radha Sekar as the Board's nominee for the position of Chief Executive Officer, and directs that her name, along with relevant professional and biographical information, be submitted to the Chairman of the Federal Communications Commission for approval.

At 4:25 p.m. Eastern Time, on a motion duly made and seconded, the Board moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Dr. Talbot reported that in *Executive Session*, the Board took action on item a1. On a motion duly made and seconded, the Board adjourned at 4:25 p.m. Eastern Time.

/s/ Ellis Jacobs
Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

BOARD OF DIRECTORS MEETING
Thursday, December 21, 2017

(DRAFT) MINUTES¹

A meeting of the USAC Board of Directors (Board) was held at USAC's offices in Washington, D.C. on Thursday, December 21, 2017. Dr. Brian Talbott, Board Chair, called the meeting to order at 1:02 p.m. Eastern Time, with a quorum of 10 of the 19 Board members present:

Bocher, Bob *by telephone*
Buzacott, Alan – *by telephone*
Choroser, Beth – *by telephone*
Feiss, Geoff – *by telephone*
Gerst, Matthew – *by telephone*
Gillan, Joe
Lubin, Joel – Vice Chair
Talbott, Dr. Brian – Chair
Wein, Olivia – *by telephone*
Wibberly, Dr. Kathy – *by telephone*

Members of the Board not present:

Brisé, Ronald – Treasurer
Domenech, Dr. Dan
Fontana, Brent
Hernandez, Dr. Mike
Jacobs, Ellis
Kinser, Cynthia
Mason, Ken
Robinson, Vickie – Acting Chief Executive, Officer, General Counsel and
Assistant Secretary
Tinic, Atilla

Officers of the corporation present:

Davis, Craig – Vice President of Procurement and Strategic Sourcing – *by telephone*

¹ Draft resolutions were presented to the Board prior to the Board meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language where necessary or to correct grammatical or spelling errors.

Salvator, Charles – Vice President of Finance, Chief Financial Officer and Assistant Treasurer

Others present:

| <u>NAME</u> | <u>COMPANY</u> |
|------------------------|----------------|
| Beckford, Ernesto | USAC |
| Guinan, Gabriela Gross | USAC |
| Nuzzo, Patsy | USAC |

OPEN SESSION

- a1. **Consideration of Contract Award for Information Technology Temporary Staffing.** In accordance with the approved criteria and procedures for conducting Board and committee business in *Executive Session*, Mr. Beckford recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration*.

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

RESOLVED, that the USAC Board of Directors determines that consideration of the recommended contract award to purchase IT temporary staff augmentation services shall be conducted in *Executive Session*.

- i1. **Discussion on Information Technology Oversight.** In accordance with the approved criteria and procedures for conducting Board and committee business in *Executive Session*, Mr. Beckford recommended that discussion of this item be conducted in *Executive Session* because this item includes discussion of *personnel matters*.

At 1:06 p.m. Eastern Time, on a motion duly made and seconded, the Board moved into *Executive Session* for the purpose of discussing the confidential items listed above.

EXECUTIVE SESSION

- a1. **Consideration of Contract Award for Information Technology Temporary Staffing.** Mr. Davis presented this item for consideration. USAC management requested that the Board of Directors (Board) approve the award of eight indefinite delivery indefinite quantity (IDIQ) contracts for Information Technology (IT) temporary staff augmentation. Mr. Davis explained: (1) the solicitation process used by USAC to obtain proposals from temporary staffing vendors; (2) a summary of the proposals received; and (3) the review and selection process undertaken by USAC to select eight vendors.

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

RESOLVED, that the USAC Board of Directors, having reviewed the recommendation of USAC management, hereby authorizes management to procure IT temporary staff augmentation services through eight IDIQ contracts with:(1) Manpower Group Public Sector, Inc.; (2) Mindlance, Inc.; (3) C3 Systems; (4) HireStrategy; (5) Ampcus; (6) Powersolv; (7) Zolon Tech, Inc.; and (8) VIVA USA, Inc.. Each contract shall be for an 11-month base period, with the ability for USAC to exercise two additional one-year options, subject to requisite FCC and Board of Directors approvals. Each of these IDIQ contracts shall be subject to a minimum of \$1000 per contract, and task orders collectively under all of these IDIQ contracts will not exceed \$13.5 million in the aggregate during the 11-month base period.

FURTHER RESOLVED, that the Board of Directors requests USAC management seek Board approval before exercising either option year under any awarded IDIQ to continue to procure IT temporary staff augmentation services from the recommended firms.

- i1. Discussion of Information Technology Oversight.** Dr. Talbott introduced this item to the Board.

At 1:30 p.m. Eastern Time, on a motion duly made and seconded, the Board moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Dr. Talbott reported that in *Executive Session*, the Board took action on item a1 and discussed item i1. On a motion duly made and seconded, the Board adjourned at 1:32 p.m. Eastern Time.

/s/ Ellis Jacobs
Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street N.W., Suite 900
Washington, D.C. 20005

BOARD OF DIRECTORS MEETING
Friday, January 5, 2017

(DRAFT) MINUTES

In a Public Notice, dated December 20, 2017 (DA 17-1228), Federal Communications Commission (FCC or Commission) Chairman Pai appointed the following six individuals to the Universal Service Administrative Company's Board of Directors (Board):

- Representative for schools that are eligible for discounts under to section 54.501 of the Commission's rules: Joan H. Wade, Ed.D., Executive Director, Association of Educational Service Agencies; •
- Representative for low-income consumers: Ellis Jacobs, Senior Attorney, Advocates for Basic Legal Equality, Inc.;
- Representative for competitive local exchange carriers: Joseph Gillan, Consultant, Gillan Associates;
- Representative for rural health care providers that are eligible to receive supported services pursuant to section 54.601: Katharine Hsu Wibberly, Ph.D., Executive Director, Mid-Atlantic Telehealth Resource Center;
- Representative for incumbent local exchange carriers (non-Bell Operating Companies) with \$40 million or less in annual revenues: Geoffrey A. Feiss, General Manager, Montana Telecommunications Association; and
- Representative for interexchange carriers with annual operating revenues of \$3 billion or less: Atilla Tinic, Senior Vice President, Enterprise Business Support Systems and International IT, CenturyLink.

On December 27, 2017, the Board was requested to vote by written unanimous consent to elect these members to the Board and appoint them to a committee by virtue of the constituency they represent.

- a1. Election of Members to the USAC Board of Directors and Appointment of Members to Programmatic Committees.** On January 5, 2018, on a motion duly made and approved by written unanimous consent, the Board adopted the following resolutions:

RESOLVED, that the USAC Board of Directors, having received the selections from the Chairman of the FCC pursuant to 47 C.F.R. § 54.703(c)(3) and pursuant to Article II, § 4 of the USAC By-laws, hereby elects to the USAC Board of Directors effective January 1, 2018:¹

¹ 47 C.F.R. § 54.703(d).

- Joan H. Wade, for a term expiring on December 31, 2020;
- Ellis Jacobs, for a term expiring on December 31, 2020;
- Joseph Gillan, for a term expiring on December 31, 2020;
- Dr. Katharine Hsu Wibberly, for a term expiring on December 31, 2020;
- Geoffrey A. Feiss, for a term expiring on December 31, 2020;
- Atilla Tinic, for a term expiring on December 31, 2020;

RESOLVED FURTHER, that each of the aforementioned directors shall remain a director until such director's: (i) resignation, (ii) removal pursuant to Article II, § 7 of the USAC By-laws and the provisions of the Delaware General Corporation Law, (iii) election of a successor pursuant to Article II, § 4 of the USAC By-laws or (iv) action by the stockholder of the corporation pursuant to the Article I of the USAC By-laws; and

RESOLVED FURTHER, that consistent with 47 C.F.R. § 54.705 and the USAC By-laws, Article II, and by virtue of the constituency they represent:

- Joan H. Wade is hereby appointed to the Schools & Libraries Committee;
- Ellis Jacobs, Joseph Gillan, Geoffrey A. Feiss, and Atilla Tinic are hereby appointed to the High Cost & Low Income Committee; and
- Dr. Katharine Hsu Wibberly is hereby appointed to the Rural Health Care Committee.

/s/ Ellis Jacobs
Secretary

**Universal Service Administrative Company
Board of Directors Meeting**

ACTION ITEM

**Election of Committee At-Large Seats, Chairs and Vice Chairs
and
Election and Appointment of Corporate Officers**

Action Requested

The USAC Board of Directors (Board) is requested to elect Board members to Board and committee leadership positions as committee chairs and vice chairs and to certain officer positions, as well as appoint staff members to certain officer positions. In addition, the Board elects members to committees when necessary.

Discussion

USAC's By-laws provide that the election of USAC corporate officers should be the first order of business at the first Board meeting at the beginning of each calendar year.¹ The Board also determined that it should elect committee chairs and vice chairs at the same time.²

In January 2018, the Nominating Committee of the Board met via teleconference to discuss the results of the December 2017 Board member interest survey and recommend a slate of candidates for each of USAC's corporate officer positions (i.e., Board Chair, Vice Chair, Treasurer, Secretary, Assistant Treasurer, and Assistant Secretary), as well as to assist the Audit, Executive, Executive Compensation, High Cost & Low Income (HCLI), Rural Health Care (RHC), and Schools & Libraries (SL) committees in identifying Board members to serve as committee chairs and vice chairs and to fill at-large seats subject to formal committee nomination and Board approval.

The Nominating Committee shared its recommendations for officer and committee positions with Board members, basing its recommendations on each Board member's interest in serving on a particular committee and/or in a particular officer or committee leadership position and taking into account committee composition requirements as set out in the Federal Communications Commission (FCC or Commission) rules, USAC's By-laws, and committee charters. Unless a member indicated that he or she did not wish to retain his or her current committee assignments (and so long as assignment to a particular committee is not prescribed by the By-laws or committee charters), the Nominating Committee recommended that members currently serving in a particular position remain in that position.

¹ USAC By-laws, Article III.

² USAC Board of Directors Meeting Minutes, at 4 (Jan. 25, 2000), *available at* <http://usac.org/about/about/leadership/board-minutes/bod.aspx>.

Below is information the Nominating Committee used as part of its discussion, which may be informative for Board members regarding Board structure and chair, vice chair and officer positions.

Background

Board of Directors Membership. The USAC Board consists of 19 members with the Chief Executive Officer (CEO) being the only permanently appointed, non-elected member. The other 18 members of the Board serve three-year staggered terms with six Board member terms expiring each on December 31 of the third year of their term, regardless of when during the year the member was elected to the Board. In effect, six Board members have their terms expire each year. Although Board member terms are set for three years, Board members serve until they are reappointed or replaced by the FCC Chair, the member resigns, or the member is removed by a two-thirds vote of the Board with the concurrence of the FCC Chair.

Committee Memberships and At Large Seats. The Board currently has seven committees. The constituency of each committee is set forth below under “Board Committee Composition.” FCC rules and USAC’s By-Laws set forth the composition requirements for the HCLI, RHC and SL committees. The composition requirements for the remaining committees are governed by charters that were approved by the Board. Some committee seats are automatic based on the constituency that each Board member represents.³ Other committee seats, which may be identified as “at large” positions, are not automatic and are made by appointment of the Board.⁴

Election and Term of Committee Chairs and Vice Chairs. The Board previously determined by resolution that committee chairs and vice chairs would be elected for one year terms that will typically commence at the conclusion of the January Board of Directors meeting each year.⁵ There are no term limits for chairs and vice chairs, and there is no automatic succession. The Board also determined by resolution that a chair or vice chair would remain in position in the event the Board does not make an election or appointment for such position at the January Board meeting (provided the person holding that position has not resigned or been removed from the Board).⁶

Officer Terms. The officers of the company are set forth in Table 2 below. Pursuant to Article III of the USAC By-laws, and applicable Board resolutions, the positions of Board Chair, Vice Chair, Treasurer, Secretary, Assistant Treasurer, and Assistant

³ For example, the Board has three members that represent schools eligible to receive support. The SL Committee must contain three members that represent schools eligible to receive support. Therefore, the Board members that represent this constituency are automatically members of the SL Committee.

⁴ For example, the SL Committee must contain one at-large representative elected by the Board. The SL Committee also must contain one service provider representative; because the Board has multiple service provider representatives, this committee position is also an at-large position elected by the Board.

⁵ USAC Board of Directors Meeting Minutes, at 4 (Jan. 25, 2000), *available at* <http://usac.org/about/about/leadership/board-minutes/bod.aspx>.

⁶ *Id.*

Secretary each have a one-year term, which typically begins at the conclusion of each January Board meeting. There are no term limits for such positions, and there is no automatic succession. The Board also determined by resolution that an officer would remain in position in the event the Board did not make an election or appointment for such position in the January Board meeting, provided the person holding that position has not resigned from or is not removed by the Board in the case of a Board member, or has not resigned or is not removed by the CEO in the case of an employee of USAC.

Nominating Committee. The Nominating Committee consists of three members and is responsible for soliciting nominations and recommending to the Board a slate of candidates for each of USAC's corporate officer positions. In addition, the Committee assists the Audit, HCLI, RHC, and SL committees in identifying Board members to serve as committee chair and vice-chair for each committee, as well as assisting the committees with identifying Board members to fill at-large seats.

The Board appoints the Nominating Committee members during the October quarterly meeting each year. The Nominating Committee typically reports its recommendations to the Board at the January quarterly meeting. In addition, each committee at its respective January quarterly meeting votes on a recommended committee chair and vice chair, with the names of the nominees reported by the respective committee chair to the Board for consideration also at the Board's January meeting.

At the January meeting, the chair of the Nominating Committee identifies the Board members recommended to serve as Board Chair, Vice Chair, Treasurer and Secretary, and the staff members to serve as Assistant Treasurer and Assistant Secretary. (USAC's Chief Financial Officer (CFO) typically serves as the Assistant Treasurer, and the General Counsel (GC) typically serves as the Assistant Secretary.)

Deferment of Nominating Process Under Certain Circumstances. The nominating process assumes that the FCC Chair has selected individuals to fill expiring terms of members from the prior two years, as well as for members whose terms expired on the immediately preceding December 31 (i.e., all expiring term seats have been selected by the FCC Chair and elected to the Board prior to consideration of members for the chair, vice chair and officer positions). When this has not occurred, which has periodically been the case, the Audit, Executive Compensation Committee (ECC), HCLI, RHC and SL committee chairs and vice chairs, as well as the Nominating Committee can, following consultation with the Board Chair and Vice Chair, the CEO and the General Counsel, choose to defer making recommendations until the FCC Chair has made Board selections.

One Year Minimum Experience. The Board will typically not elect a member to a chair, vice chair or officer position if the member has less than one-year of experience as a Board member or the individual's term has expired, even if the member may be re-selected by the FCC Chair.

Incumbent Preferences. Traditionally, an incumbent committee chair and vice chair retain their positions if they so choose, but there is no rule or policy requiring such practice. Any Board member can serve as Board Chair, Vice Chair, Treasurer or Secretary. As with the committee chair and vice chair positions, the incumbents traditionally retain their positions if they so choose, but there is no rule or policy requiring such practice.

Board Committee Composition

SL Committee:

47 C.F.R. Section 54.705(a)(2) provides that the SL Committee will include the following seven seats: three school representatives; one library representative; one service provider representative; one at-large representative; and the USAC CEO. On July 26, 2016, at the recommendation of the Nominating Committee, the Board of Directors added two at-large positions to the SL Committee.⁷

HCLI Committee:

The composition of the HCLI Committee was originally set forth in a 1998 FCC order (FCC 98-306, ¶¶ 34 and 38). Although the FCC did not include the HCLI Committee composition requirements in 47 C.F.R. Part 54, the Order sets the size (nine) and membership of the committee, which USAC included in Article II, Section 8 of its By-Laws as follows: two ILEC representatives (one representing rural telephone companies and one representing non-rural telephone companies), one wireless representative, one CLEC representative, one low income representative, one interexchange carrier representative, one state consumer advocate, one state telecommunications regulator representative, and the USAC CEO. On July 26, 2016, at the recommendation of the Nominating Committee, the Board of Directors added two at-large positions to the HCLI Committee.⁸

RHC Committee:

47 C.F.R. Section 54.705(a)(2) provides that the RHC Committee will consist of the following eight seats: two rural health care representatives; one service provider representative; two at-large representatives elected by the Board; one state telecommunications regulator; one state consumer advocate; and the USAC CEO.

⁷ See USAC Board of Directors Meeting Minutes at 25-26 (July 26, 2016), available at <http://www.usac.org/res/documents/about/pdf/bod/minutes/2016/2016-BOD-Minutes.pdf#pagemode=bookmarks>.

⁸ See USAC Board of Directors Meeting Minutes at 25-26 (July 26, 2016), available at <http://www.usac.org/res/documents/about/pdf/bod/minutes/2016/2016-BOD-Minutes.pdf#pagemode=bookmarks>.

Audit Committee:

The Audit Committee has five members consisting of a member from each of the HCLI, RHC and SL committees and two at-large seats. Section II, A of the Audit Committee Charter requires that at least one member of the Committee “have a background in financial reporting, accounting, or auditing, or other financial expertise.”

Executive Committee:

The Executive Committee is comprised of the Board Chair, Vice Chair, the Audit, HCLI, RHC and SL committee chairs, the Treasurer and Secretary of the corporation, and the USAC CEO.

Executive Compensation Committee:

The Executive Compensation Committee (ECC) consists of five members, plus the Board Chair who serves as a non-voting member.

Current Committee Chairs, Vice Chairs and Officers

Table 1 – Chairs and Vice Chairs

Following are the current committee chairs and vice chairs:

| Committee | Chair | Vice Chair |
|------------------------|---------------------|-------------------|
| Executive | Joel Lubin (Acting) | Joel Lubin |
| Audit Committee | Joe Gillan | Geoff Feiss |
| High Cost & Low Income | Joel Lubin | Joe Gillan |
| Rural Health Care | Dr. Kathy Wibberly | Ronald Brisé |
| Schools & Libraries | Dr. Dan Domenech | Ken Mason |
| Executive Compensation | Joel Lubin | --- |

Table 2 – Officers

Following are the current officers:

| Officer Position | Incumbent |
|-------------------------|---------------------|
| Chair | Joel Lubin (Acting) |
| Vice Chair | Joel Lubin |
| Secretary | Ellis Jacobs |
| Treasurer | Ronald Brisé |
| CEO ⁹ | Radha Sekar |

⁹ The CEO is elected to a term coincident with the term of the CEO’s employment and is not elected annually.

| Officer Position | <i>Incumbent</i> |
|---------------------------------------|--|
| Chief Operating Officer ¹⁰ | Mark Sweeney |
| Assistant Secretary ¹¹ | Vacant |
| Assistant Treasurer ¹² | Charles Salvator |
| Other USAC VPs ¹³ | <ul style="list-style-type: none"> • VP of Finance & Chief Financial Officer: Charles Salvator • VP, Rural Health Care Program: Karen Lee • VP, Lifeline Program: Michelle Garber • VP, High Cost Program: Victor Gaither • VP, Schools and Libraries: Catriona Ayer (<i>Acting</i>) • VP of Internal Audit: Wayne Scott • VP, Procurement & Strategic Sourcing: Craig Davis • Chief of Human Resources: Tamika Mitchell (<i>Acting</i>) • CIO: Kyle Hutchinson (<i>Acting</i>) • VP: Enterprise Portfolio Management: Vacant • General Counsel: Vacant |

On January 29, 2018 the Audit, HCLI, RHC, and SL committees met to identify and make recommendations to the Board for action at today’s Board meeting for the positions of committee chair and vice chair of their respective committees.

Actions to be Taken by the Board of Directors at this Meeting

The Board will consider resolutions to take the following actions:

- (i) Elect members of the Board to fill at-large seats for each of the Board committees.
- (ii) Elect the Chair and Vice Chair for the SL, HCLI, RHC, and Audit committees, and the Chair for the ECC, each as nominated by the respective committees.
- (iii) Elect the Chair and Vice Chair of the Board, the Treasurer of the corporation, and the Secretary of the corporation.
- (iv) Appoint USAC staff members as Assistant Treasurer of the corporation and Assistant Secretary of the corporation.

¹⁰ The COO is appointed an officer coincident with the term of the COO’s employment and is not elected annually.

¹¹ Traditionally, the General Counsel serves as the Assistant Secretary.

¹² Traditionally, the CFO serves as the Assistant Treasurer.

¹³ The Board determined that each vice president shall be designated an officer of the corporation immediately upon his or her assumption of the duties of the position and shall serve as such until his or her employment in such position with USAC terminates for any reason; therefore, these positions are not elected annually. However, the positions of Assistant Secretary and Assistant Treasurer are elected annually.

Recommended USAC Board of Directors Action

APPROVAL OF THE FOLLOWING RESOLUTIONS:

Election of Board Members to Committee At-Large Seats

RESOLVED, that the USAC Board of Directors accepts the recommendations of the Nominating Committee and elects the following directors to serve in at-large seats on the **Schools & Libraries Committee**: _____ (representing service providers), _____ (at-large member), _____ (at-large member), and _____ (at-large member); and

RESOLVED FURTHER, that the USAC Board of Directors accepts the recommendations of the Nominating Committee and elects the following directors to serve in at-large seats on the **High Cost & Low Income Committee**: _____ (at-large member), and _____ (at-large member); and

RESOLVED FURTHER, that the USAC Board of Directors accepts the recommendations of the Nominating Committee and elects the following directors to serve in at-large seats on the **Rural Health Care Committee**: _____ (representing service providers), _____ (at-large member), and _____ (at-large member); and

RESOLVED FURTHER, that the USAC Board of Directors accepts the recommendations of the Nominating Committee and elects the following directors to serve in at-large seats on the **Audit Committee**: _____ (representing the HCLI committee), _____ (representing the RHC committee), _____ (at-large member), and _____ (at-large member); and

RESOLVED FURTHER, that the USAC Board of Directors accepts the recommendations of the Nominating Committee and elects the following directors to serve in at-large seats on the **Executive Compensation Committee**: _____ (at-large member), _____ (at-large member), _____ (at-large member), _____ (at-large member), and _____ (at-large member).

Election of Committee Chairs and Vice Chairs

RESOLVED, that the USAC Board of Directors accepts the recommendation of the Schools & Libraries Committee and elects _____ as Chair and _____ as Vice Chair of the **Schools & Libraries Committee**; and

RESOLVED FURTHER, that the USAC Board of Directors accepts the recommendation of the High Cost & Low Income Committee and elects _____ as Chair and _____ as Vice Chair of the **High Cost & Low Income Committee**; and

RESOLVED FURTHER, that the USAC Board of Directors accepts the recommendation of the Rural Health Care Committee and elects _____ as Chair and _____ as Vice Chair of the **Rural Health Care Committee**; and

RESOLVED FURTHER, that the USAC Board of Directors accepts the recommendation of the Audit Committee and elects _____ as Chair and _____ as Vice Chair of the **Audit Committee**; and

RESOLVED FURTHER, that each of the aforementioned directors shall serve for a term that begins immediately upon the adoption of this resolution by the Board and ends at such time as the chair or vice chair (as the case may be): (i) is replaced by a successor selected by the Board, (ii) resigns from the Committee or the Board, (iii) is removed by resolution of the Board, or (iv) is no longer a member of the Board (whichever comes first).

Election of Board Chair, Vice Chair, Secretary and Treasurer

RESOLVED, that the USAC Board of Directors elects _____ as Chair of the Board and _____ as Vice Chair of the Board, _____ as Secretary of the corporation, and _____ as Treasurer of the corporation, each for a term that begins immediately upon adoption of this resolution and ends when such member's successor has been elected, when such member resigns such position, is removed by resolution of the Board, or is no longer a member of the Board.

Appointment of USAC Staff Members as Assistant Secretary and Assistant Treasurer

RESOLVED, that the USAC Board of Directors accepts the recommendation of the USAC Nominating Committee and appoints _____ as Assistant Secretary of the corporation and _____ as Assistant Treasurer of the corporation, each for a term that begins immediately upon adoption of this resolution and ends when such person's successor has been appointed, such person resigns from such position, his employment with USAC terminates for whatever reason, or such person is removed by the CEO or by resolution of the Board.

**Universal Service Administrative Company
Board of Directors Meeting**

ACTION ITEM

Approval of 2018 Audit Committee Charter

Same as aEC03

Action Requested

In accordance with USAC's Audit Committee Charter (Charter), Section III.A.1, the Audit Committee (Committee) is required to review the adequacy of the Charter annually and recommend changes, if any, to the USAC Board of Directors (Board).

Discussion

USAC Internal Audit Division (IAD) staff reviewed the Charter to determine if any changes should be recommended to the Committee and the Board of Directors for consideration. IAD proposes including enterprise risk management as part of the Committee's oversight responsibilities and clarifying that the Committee shall review the integrity of the financial reporting process with the Vice President and Chief Financial Officer and Chief Executive Officer at least annually. In addition, IAD proposes adding language to the Charter to make clear that the Committee shall receive reports of whistleblower complaints received by the Vice President of IAD; such reports shall be prepared jointly by the Vice President of IAD and USAC's Office of General Counsel. Further, IAD proposes making minor revisions to the procedures for discussing matters in executive session. **Attachment A** provides a copy of the Charter with the recommended changes; and **Attachment B** provides a copy of the existing Charter marked to show the recommended changes.

The Committee recommends that the Board approve the revised Charter.

Recommended USAC Audit Committee Action

APPROVAL OF THE FOLLOWING RESOLUTION:

RESOLVED, that the USAC Audit Committee, having reviewed the current Audit Committee Charter and the proposed changes presented by the USAC Internal Audit Division, recommends that the USAC Board of Directors approve the revised Audit Committee Charter.

Recommended USAC Board of Directors Action

APPROVAL OF THE FOLLOWING RESOLUTION:

RESOLVED, that the USAC Board of Directors, having reviewed the current Audit Committee Charter and the proposed changes presented by the USAC Internal Audit Division, hereby accepts the recommendation of the Audit Committee and approves the revised Audit Committee Charter.

ATTACHMENT A

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY AUDIT COMMITTEE CHARTER

January 2018

- I. Audit Committee Purpose, Duties, and Responsibilities.
 - A. The Audit Committee (Committee) of the Board of Directors of the Universal Service Administrative Company (USAC) shall provide assistance to the Board of Directors (Board) in fulfilling the Board's oversight responsibilities relating to corporate accounting, financial reporting practices, internal control, Universal Service Fund program integrity, enterprise risk management, and all aspects of corporate compliance with applicable law.
 - B. The Committee's primary duties and responsibilities shall be as follows:
 1. Oversee management's efforts to maintain the reliability and integrity of USAC's accounting policies and financial reporting practices.
 2. Oversee management's efforts to establish, maintain, and review processes that assure that an adequate system of internal control is functioning within USAC through the execution of operational and Universal Service Fund Beneficiary and Contributor audits and the required annual financial statement audit and agreed upon procedures review.
 3. Oversee management's efforts to establish, maintain, and review processes that assure compliance by USAC with all applicable laws.
 4. Provide an avenue of communication between USAC's independent financial statement auditors, USAC management (including but not limited to the Chief Executive Officer, the Vice President of Finance and Chief Financial Officer, the Vice President and General Counsel, and the Vice President of each USAC programmatic division), the Vice President of Internal Audit, and the Board.
 5. Provide insight and recommendations to establish cost effective Universal Service Fund strategic audit plans that are focused on high risk areas as identified through audit results and data analytics. Also, assist USAC by providing solutions to mitigate common audit findings and suggestions to build a more collaborative audit experience for Universal Service Fund participants.

II. Audit Committee Composition, Appointment, and Meetings.

A. Composition

1. The Committee shall consist of five Board members:
 - a. At least one representative from each of the three programmatic committees of the Board (the High Cost & Low Income Committee, the Rural Health Care Committee, and the Schools & Libraries Committee). The Chairperson of the Audit Committee will serve as a member of the Executive Committee.
 - b. Two at-large Board members.
 - c. At least one Committee member shall have a background in financial reporting, accounting, or auditing, or other financial expertise.
2. Each member of the Committee shall meet each of the following independence requirements:
 - a. Is not and has not been employed in an executive capacity by USAC for at least five years prior to appointment to the Committee.
 - b. Is not an advisor or consultant to USAC, and does not have a personal services contract or other business relationship with USAC.
 - c. Is not a spouse, parent, sibling, child, or in-law of any person described in the preceding two clauses of this paragraph or of any member of USAC management.

B. Appointment

1. The members of the Committee shall be appointed annually by the Board. Each member shall hold office until he/she resigns, is removed or until a successor is appointed by the Board.
2. The Board shall appoint one of the members of the Committee as Chair and another as Vice Chair.

C. Meetings

1. The Committee shall meet at least quarterly and at such other times as the Committee deems necessary.
2. The Committee shall, at least annually and at such other times as the Committee deems necessary, separately meet with USAC management, the Vice President of Internal Audit, and representatives of the independent

financial auditing firm retained by USAC to discuss any matters that either the Committee or any of these groups believes should be discussed privately.

3. The Committee may direct any member of the Board, officer, or employee of USAC or advisor to USAC, including outside counsel or independent auditors, to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee shall advise the Board of all such special meetings either prior to the meeting or promptly thereafter.

III. Responsibilities and Duties

A. Review of Documents, Reports, and Assessments

1. Review and reassess, at least annually, the adequacy of the Committee Charter and make recommendations to the Board, as deemed necessary.
2. Review, in conjunction with management and representatives of the independent auditing firm retained by USAC, the annual financial statements and the audit reports included with those statements and the annual agreed upon procedures review report.
 - a. Discuss with management and the independent auditors significant issues regarding accounting principles, practices, and judgments.
 - b. Discuss any significant judgments made in management's preparation of the financial statements and any significant difficulties encountered during the course of the review or audit, including any restrictions on the scope of work or access to required information.
 - c. Discuss any significant exceptions in the agreed upon procedures review report.
3. Review and approve, in conjunction with management and the Vice President of Internal Audit, the USAC Corporate Internal Audit Plan and assess the adequacy of the audit coverage outlined in the USAC Corporate Internal Audit Plan.
4. Review USAC financial, operational and compliance audit reports prepared by the independent auditors or the Internal Audit Division and management's response thereto.
5. Review, at least annually, a summary report of common audit findings concerning Universal Service Fund beneficiary and contributor audits performed under the Universal Service Fund Beneficiary and Contributor Audit Program.

- a. Discuss audit results to highlight areas of high risks for consideration in developing future Universal Service Fund audit plans, FCC rules that may require revision to improve compliance among beneficiaries and contributors, and suggestions for improving audit efficiency among beneficiaries and contributors.
 - b. Provide insight to the Internal Audit Division by providing suggested approaches to avoid common audit challenges and solutions to build a more collaborative audit experience for Universal Service Fund participants.
6. Review with management, the independent or external auditors, and the Vice President of Internal Audit any significant findings of the reports, management's response thereto, and any significant difficulties encountered during the course of the review or audit, including any restrictions on the objectives or scope of work or access to required information.
- B. Oversight of Independent Auditing Firm(s) Retained by USAC for the Annual Financial and Agreed-Upon Procedures Review
1. Initially select, periodically evaluate (at least annually), and replace as necessary the independent auditing firm(s) retained by USAC for the Annual Financial and Agree-Upon Procedures review, subject to the requirement to obtain the approval of the Board for expenditures in excess of the amount set forth in Section III.H.4. of this Audit Committee Charter, *provided*, however, that nothing herein shall affect the authority of the programmatic committees of the Board to select, evaluate, and replace independent auditing firms with respect to the audits of beneficiaries and contributors of the universal service support mechanisms when deemed necessary by the Committee or the Vice President of Internal Audit.
 2. Oversee the independence of the independent auditing firm(s) retained by USAC by reviewing and discussing with each auditor a formal written statement concerning their independence and the nature of the relationship, if any, between the auditor and the USAC.
 3. Approve any significant non-audit related services to be provided by an independent auditing firm retained by USAC.
- C. Review and Oversight of USAC's Financial Reporting Process, Financial Statement Audit
1. Review the integrity of the USAC's financial reporting process, at least annually, in consultation with: (i) the independent auditing firm(s) retained by USAC, (ii) the Vice President of Finance and Chief Financial Officer, and (iii) the Chief Executive Officer.

2. Review significant changes to USAC's auditing and accounting principles and practices as suggested by an independent auditing firm retained by USAC, the Vice President of Finance and Chief Financial Officer, or the Vice President of Internal Audit.
 3. Require and timely review reports from the independent auditing firm(s) retained by USAC relating to the following:
 - a. All significant accounting policies and practices to be used.
 - b. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, including the ramifications of such alternative disclosures and treatments and the treatment preferred by the independent auditing firm.
 - c. Other written communications between the independent auditors and management, such as any management letter or schedule of adjusted differences.
 4. Review and evaluate significant disagreement among USAC management and the independent auditing firm(s) retained by USAC and/or the Vice President of Internal Audit in connection with the preparation of the USAC financial statements, and management's response thereto.
- D. Oversight of the Operational Reporting Process, Agreed-Upon Procedures Review
1. In consultation with the independent auditing firm(s) retained by USAC and the Vice President of Internal Audit, review the integrity of internal controls and operating procedures and any exceptions identified in the agreed-upon procedures reviews.
 2. Review changes to USAC's internal controls or operating procedures and practices as suggested by an independent auditing firm retained by USAC, management, or the Vice President of Internal Audit.
 3. Ensure and oversee timely reports from the independent auditing firm(s) retained by USAC to the Audit Committee.
 4. Review and evaluate significant disagreement among USAC management and the independent auditing firm(s) retained by USAC and/or the Vice President of Internal Audit in connection with the preparation of USAC's agreed upon procedures report and management's response thereto.
- E. Oversight of Internal Audit Division

1. Review the Internal Audit Charter, organizational structure, budget, activities, and significant changes to the Internal Audit Plan, as needed.
 2. Review and approve the appointment, replacement, or reassignment of the Vice President of Internal Audit.
 3. Review the effectiveness of the internal audit activities, including compliance with Generally Accepted Government Auditing Standards (GAGAS) as issued by the Comptroller General of the United States (2011 revision) and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.
 4. Receive reports of whistleblower complaints received by the Vice President of Internal Audit. Such reports shall be prepared jointly by the Vice President of Internal Audit and USAC's Office of General Counsel.
- F. Assessment of Internal Controls, Annual Report on Internal Controls
1. Review with management, the independent auditors, and the Vice President of Internal Audit the effectiveness of the Company's process for assessing significant risks or exposures and the steps management has taken to minimize such risks and exposures to the Company.
 2. Review with management, the independent auditors, and the Vice President of Internal Audit the adequacy of the Company's system of internal controls as noted in the Annual Report on Internal Controls as issued by the independent auditing firm.
 3. Establish and maintain procedures for the following activities:
 - a. The receipt, retention, and treatment of complaints received by USAC regarding accounting, internal controls, operating procedures, or auditing matters.
 - b. The confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- G. Compliance With Applicable Law
1. In consultation with the Vice President and General Counsel, review at least annually any legal matters that could have a significant effect on the USAC's operations, financial statements, and reports received from regulators.
 2. In consultation with the Vice President and General Counsel, review the processes established to assure compliance by USAC with all applicable laws.

3. Review the results of any investigations concerning waste, fraud, abuse, and/or accounting irregularities and make recommendations for remedial action, if appropriate.

H. Other Responsibilities of the Audit Committee

1. Periodically report to the Board through the Committee Chair or pursuant to other means acceptable to the Board.
2. Maintain minutes or other records of meetings and activities of the Committee.
3. Perform any other activities consistent with the Committee Charter, USAC's By-laws, and applicable laws, as the Committee or the Board deems appropriate.
4. When deemed appropriate by the Committee, the Committee will retain outside legal, accounting, or other advisors or consultants to advise and assist the Committee, without needing to seek approval for the retention of such advisors or consultants from the Board, *provided* that the cost is less than \$250,000 in any single calendar year. If the cost for such purpose exceeds \$250,000 in a calendar year, the Committee shall obtain Board approval before engaging or continuing to engage an outside advisor or consultant.

IV. Limitations on Responsibilities and Duties of Audit Committee Members and Audit Committee

- A. The responsibility of the Committee is oversight. USAC management is responsible for the USAC financial statements as well as financial reporting processes, principles, and internal controls. The independent auditing firm(s) retained by USAC is/are responsible for performing audits of the annual financial statements, expressing an opinion as to the conformity of such annual financial statements with generally accepted accounting principles, and other procedures. The members of the Committee are not engaged in the accounting or auditing profession and, consequently, are not experts in matters involving auditing or accounting.
- B. Each member of the Committee shall be entitled reasonably to rely on the following:
 1. The integrity of those persons within USAC and of the professionals and experts (such as the independent auditors) who provide professional advice and information to the Committee and/or USAC.
 2. The accuracy of the financial and other information provided to the Committee by such persons, professionals, or experts, absent actual knowledge to the contrary.

- C. Pursuant to USAC By-Laws and FCC rules, the programmatic committees of the Board have the authority for the performance of audits of beneficiaries of the respective support mechanisms. The Audit Committee shall provide advice and assistance to the programmatic committees in support of the primary role of the programmatic committees with respect to audits of beneficiaries.

V. Procedures for Discussing Matters in *Executive Session*

- A. In general, any USAC Board member may attend any meeting of the Committee, including *Executive Sessions*, as an observer, even though the person is not a member of the Audit Committee. The exceptions to this general rule are as follows:
 - 1. Where the Board member is aware of an actual or potential conflict of interest with respect to a matter coming before the Committee in *Executive Session*, he/she shall bring the matter to the attention of the Committee or, if the Committee is aware of the conflict of interest, the Committee or any member thereof may raise the issue for consideration. The Board member may self-recuse from the meeting or, upon the vote of the Committee, be excluded from the relevant portion of the *Executive Session* of the Committee meeting.
 - 2. Where a Board member seeking to attend an *Executive Session* of the Committee is aware of an actual or potential conflict of interest with respect to a matter coming before the Committee in *Executive Session*, he/she shall bring the matter to the attention of the Committee or, if the Committee is aware of the actual or the potential conflict of interest, the Committee or any member thereof may raise the issue for consideration. Where disclosure and/or discussion of the specific issue or potential conflict of interest would compromise the integrity of the Universal Service Fund, the Committee shall exclude all persons other than Audit Committee members.
 - 3. Where the Committee wishes to meet with USAC's independent auditing firm, the Vice President of Internal Audit, the Vice President and General Counsel, the Vice President of Finance and Chief Financial Officer, and/or other representatives to discuss or seek assurances concerning any significant difficulties encountered during the course of a review or audit, including any restrictions on the scope of work or access to required information, or matters of a similar nature, and/or engaged in the preliminary assessment of any investigation, the Committee may exclude Board members who are not members of the Committee from attending the relevant portion of the *Executive Session* of the Committee meeting.

ATTACHMENT B

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY AUDIT COMMITTEE CHARTER

TRACKED TO SHOW CHANGES FROM 2017

January 2017/2018

- I. Audit Committee Purpose, Duties, and Responsibilities.
 - A. The Audit Committee (Committee) of the Board of Directors of the Universal Service Administrative Company (USAC) shall provide assistance to the Board of Directors (Board) in fulfilling the Board's oversight responsibilities relating to corporate accounting, financial reporting practices, internal control, Universal Service Fund program integrity, enterprise risk management, and all aspects of corporate compliance with applicable law.
 - B. The Committee's primary duties and responsibilities shall be as follows:
 1. Oversee management's efforts to maintain the reliability and integrity of USAC's accounting policies and financial reporting practices.
 2. Oversee management's efforts to establish, maintain, and review processes that assure that an adequate system of internal control is functioning within USAC through the execution of operational and Universal Service Fund Beneficiary and Contributor audits and the required annual financial statement audit and agreed upon procedures review.
 3. Oversee management's efforts to establish, maintain, and review processes that assure compliance by USAC with all applicable laws.
 4. Provide an avenue of communication between USAC's independent financial statement auditors, USAC management (including but not limited to the Chief Executive Officer, the Vice President of Finance and Chief Financial Officer, the Vice President and General Counsel, and the Vice President of each USAC programmatic division), the Vice President of Internal Audit, and the Board.
 5. Provide insight and recommendations to establish cost effective Universal Service Fund strategic audit plans that are focused on high risk areas as identified through audit results and data analytics. Also, assist USAC by providing solutions to mitigate common audit findings and suggestions to build a more collaborative audit experience for Universal Service Fund participants.

II. Audit Committee Composition, Appointment, and Meetings.

A. Composition

1. The Committee shall consist of five Board members:
 - a. At least one representative from each of the three programmatic committees of the Board (the High Cost & Low Income Committee, the Rural Health Care Committee, and the Schools & Libraries Committee). The Chairperson of the Audit Committee will serve as a member of the Executive Committee.
 - b. Two at-large Board members.
 - c. At least one Committee member shall have a background in financial reporting, accounting, or auditing, or other financial expertise.
2. Each member of the Committee shall meet each of the following independence requirements:
 - a. Is not and has not been employed in an executive capacity by USAC for at least five years prior to appointment to the Committee.
 - b. Is not an advisor or consultant to USAC, and does not have a personal services contract or other business relationship with USAC.
 - c. Is not a spouse, parent, sibling, child, or in-law of any person described in the preceding two clauses of this paragraph or of any member of USAC management.

B. Appointment

1. The members of the Committee shall be appointed annually by the Board. Each member shall hold office until he/she resigns, is removed or until a successor is appointed by the Board.
2. The Board shall appoint one of the members of the Committee as Chair and another as Vice Chair.

C. Meetings

1. The Committee shall meet at least quarterly and at such other times as the Committee deems necessary.
2. The Committee shall, at least annually and at such other times as the Committee deems necessary, separately meet with USAC management, the Vice President of Internal Audit, and representatives of the independent

financial auditing firm retained by USAC to discuss any matters that either the Committee or any of these groups believes should be discussed privately.

3. The Committee may direct any member of the Board, officer, or employee of USAC or advisor to USAC, including outside counsel or independent auditors, to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee shall advise the Board of all such special meetings either prior to the meeting or promptly thereafter.

III. Responsibilities and Duties

A. Review of Documents, Reports, and Assessments

1. Review and reassess, at least annually, the adequacy of the Committee Charter and make recommendations to the Board, as deemed necessary.
2. Review, in conjunction with management and representatives of the independent auditing firm retained by USAC, the annual financial statements and the audit reports included with those statements and the annual agreed upon procedures review report.
 - a. Discuss with management and the independent auditors significant issues regarding accounting principles, practices, and judgments.
 - b. Discuss any significant judgments made in management's preparation of the financial statements and any significant difficulties encountered during the course of the review or audit, including any restrictions on the scope of work or access to required information.
 - c. Discuss any significant exceptions in the agreed upon procedures review report.
3. Review and approve, in conjunction with management and the Vice President of Internal Audit, the USAC Corporate Internal Audit Plan and assess the adequacy of the audit coverage outlined in the USAC Corporate Internal Audit Plan.
4. Review USAC financial, operational and compliance audit reports prepared by the independent auditors or the Internal Audit Division and management's response thereto.
5. Review, at least annually, a summary report of common audit findings concerning Universal Service Fund beneficiary and contributor audits performed under the Universal Service Fund Beneficiary and Contributor Audit Program.

- a. Discuss audit results to highlight areas of high risks for consideration in developing future Universal Service Fund audit plans, FCC rules that may require revision to improve compliance among beneficiaries and contributors, and suggestions for improving audit efficiency among beneficiaries and contributors.
 - b. Provide insight to the Internal Audit Division by providing suggested approaches to avoid common audit challenges and solutions to build a more collaborative audit experience for Universal Service Fund participants.
6. Review with management, the independent or external auditors, and the Vice President of Internal Audit any significant findings of the reports, management's response thereto, and any significant difficulties encountered during the course of the review or audit, including any restrictions on the objectives or scope of work or access to required information.
- B. Oversight of Independent Auditing Firm(s) Retained by USAC for the Annual Financial and Agreed-Upon Procedures Review
1. Initially select, periodically evaluate (at least annually), and replace as necessary the independent auditing firm(s) retained by USAC for the Annual Financial and Agree-Upon Procedures review, subject to the requirement to obtain the approval of the Board for expenditures in excess of the amount set forth in Section III.H.4. of this Audit Committee Charter, *provided*, however, that nothing herein shall affect the authority of the programmatic committees of the Board to select, evaluate, and replace independent auditing firms with respect to the audits of beneficiaries and contributors of the universal service support mechanisms when deemed necessary by the Committee or the Vice President of Internal Audit.
 2. Oversee the independence of the independent auditing firm(s) retained by USAC by reviewing and discussing with each auditor a formal written statement concerning their independence and the nature of the relationship, if any, between the auditor and the USAC.
 3. Approve any significant non-audit related services to be provided by an independent auditing firm retained by USAC.
- C. Review and Oversight of USAC's Financial Reporting Process, Financial Statement Audit
1. ~~Review the integrity of the USAC's financial reporting process, at least annually, in~~ consultation with: (i) the independent auditing firm(s) retained by USAC ~~and, (ii) the Vice President of Internal Audit, review the integrity of~~

~~the USAC's financial reporting process at least annually.~~ Finance and Chief Financial Officer, and (iii) the Chief Executive Officer.

2. Review significant changes to USAC's auditing and accounting principles and practices as suggested by an independent auditing firm retained by USAC, ~~management~~ the Vice President of Finance and Chief Financial Officer, or the Vice President of Internal Audit.
 3. Require and timely review reports from the independent auditing firm(s) retained by USAC relating to the following:
 - a. All significant accounting policies and practices to be used.
 - b. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, including the ramifications of such alternative disclosures and treatments and the treatment preferred by the independent auditing firm.
 - c. Other written communications between the independent auditors and management, such as any management letter or schedule of adjusted differences.
 4. Review and evaluate significant disagreement among USAC management and the independent auditing firm(s) retained by USAC and/or the Vice President of Internal Audit in connection with the preparation of the USAC financial statements, and management's response thereto.
- D. Oversight of the Operational Reporting Process, Agreed-Upon Procedures Review
1. In consultation with the independent auditing firm(s) retained by USAC and the Vice President of Internal Audit, review the integrity of internal controls and operating procedures and any exceptions identified in the agreed-upon procedures reviews.
 2. Review changes to USAC's internal controls or operating procedures and practices as suggested by an independent auditing firm retained by USAC, management, or the Vice President of Internal Audit.
 3. Ensure and oversee timely reports from the independent auditing firm(s) retained by USAC to the Audit Committee.
 4. Review and evaluate significant disagreement among USAC management and the independent auditing firm(s) retained by USAC and/or the Vice President of Internal Audit in connection with the preparation of USAC's agreed upon procedures report and management's response thereto.

E. Oversight of Internal Audit Division

1. Review the Internal Audit Charter, organizational structure, budget, activities, and significant changes to the Internal Audit Plan, as needed.
2. Review and approve the appointment, replacement, or reassignment of the Vice President of Internal Audit.
3. Review the effectiveness of the internal audit activities, including compliance with Generally Accepted Government Auditing Standards (GAGAS) as issued by the Comptroller General of the United States (2011 revision) and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.
4. Receive reports of whistleblower complaints received by the Vice President of Internal Audit. Such reports shall be prepared jointly by the Vice President of Internal Audit and USAC's Office of General Counsel.

F. Assessment of Internal Controls, Annual Report on Internal Controls

1. Review with management, the independent auditors, and the Vice President of Internal Audit the effectiveness of the Company's process for assessing significant risks or exposures and the steps management has taken to minimize such risks and exposures to the Company.
2. Review with management, the independent auditors, and the Vice President of Internal Audit the adequacy of the Company's system of internal controls as noted in the Annual Report on Internal Controls as issued by the independent auditing firm.
3. Establish and maintain procedures for the following activities:
 - a. The receipt, retention, and treatment of complaints received by USAC regarding accounting, internal controls, operating procedures, or auditing matters.
 - b. The confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

G. Compliance With Applicable Law

1. In consultation with the Vice President and General Counsel, review at least annually any legal matters that could have a significant effect on the USAC's operations, financial statements, and reports received from regulators.
2. In consultation with the Vice President and General Counsel, review the processes established to assure compliance by USAC with all applicable laws.

3. Review the results of any investigations concerning waste, fraud, abuse, and/or accounting irregularities and make recommendations for remedial action, if appropriate.

H. Other Responsibilities of the Audit Committee

1. Periodically report to the Board through the Committee Chair or pursuant to other means acceptable to the Board.
2. Maintain minutes or other records of meetings and activities of the Committee.
3. Perform any other activities consistent with the Committee Charter, USAC's By-laws, and applicable laws, as the Committee or the Board deems appropriate.
4. When deemed appropriate by the Committee, the Committee will retain outside legal, accounting, or other advisors or consultants to advise and assist the Committee, without needing to seek approval for the retention of such advisors or consultants from the Board, *provided* that the cost is less than \$250,000 in any single calendar year. If the cost for such purpose exceeds \$250,000 in a calendar year, the Committee shall obtain Board approval before engaging or continuing to engage an outside advisor or consultant.

IV. Limitations on Responsibilities and Duties of Audit Committee Members and Audit Committee

- A. The responsibility of the Committee is oversight. USAC management is responsible for the USAC financial statements as well as financial reporting processes, principles, and internal controls. The independent auditing firm(s) retained by USAC ~~are~~*is/are* responsible for performing audits of the annual financial statements, expressing an opinion as to the conformity of such annual financial statements with generally accepted accounting principles, and other procedures. The members of the Committee are not engaged in the accounting or auditing profession and, consequently, are not experts in matters involving auditing or accounting.
- B. Each member of the Committee shall be entitled reasonably to rely on the following:
 1. The integrity of those persons within USAC and of the professionals and experts (such as the independent auditors) who provide professional advice and information to the Committee and/or USAC.
 2. The accuracy of the financial and other information provided to the Committee by such persons, professionals, or experts, absent actual knowledge to the contrary.

- C. Pursuant to USAC By-Laws and FCC rules, the programmatic committees of the Board have the authority for the performance of audits of beneficiaries of the respective support mechanisms. The Audit Committee shall provide advice and assistance to the programmatic committees in support of the primary role of the programmatic committees with respect to audits of beneficiaries.

V. Procedures for Discussing Matters in *Executive Session*

- A. In general, any USAC Board member may attend any meeting of the Committee, including *Executive Sessions*, as an observer, even though the person is not a member of the Audit Committee. The exceptions to this general rule are as follows:
 1. Where the Board member is aware of an actual or potential conflict of interest with respect to a matter coming before the Committee in *Executive Session*, he/she shall bring the matter to the attention of the Committee or, if the Committee is aware of the conflict of interest, the Committee or any member thereof may raise the issue for consideration. The Board member may self-recuse from the meeting or, upon the vote of the Committee, be excluded from the relevant portion of the *Executive Session* of the Committee meeting.
 2. Where a Board member seeking to attend an *Executive Session* of the Committee is aware of an actual or potential conflict of interest with respect to a matter coming before the Committee in *Executive Session*, he/she shall bring the matter to the attention of the Committee or, if the Committee is aware of the actual or the potential conflict of interest, the Committee or any member thereof may raise the issue for consideration. Where disclosure and/or discussion of the specific issue or potential conflict of interest would compromise the integrity of the Universal Service Fund, the Committee shall exclude all persons other than Audit Committee members.
 3. Where the Committee wishes to meet with USAC's independent auditing firm, the Vice President of Internal Audit, the Vice President and General Counsel, the Vice President of Finance and Chief Financial Officer, and/or other representatives to discuss or seek assurances concerning any significant difficulties encountered during the course of a review or audit, including any restrictions on the scope of work or access to required information, or matters of a similar nature, and/or engaged in the preliminary assessment of any investigation, the Committee may exclude ~~other~~ Board members who are not members of the Committee from attending the relevant portion of the *Executive Session* of the Committee meeting.

**Universal Service Administrative Company
Board of Directors Meeting**

ACTION ITEM

**Approval of 2nd Quarter 2018 USAC Common and Consolidated Budgets and
Quarterly Budget and Demand Projections**

Action Requested

The USAC Board of Directors (Board) is requested to approve the 2nd Quarter 2018 (2Q2018) common and consolidated budgets and collection requirement for submission to the Federal Communications Commission (FCC or Commission) in USAC's January 31, 2018 quarterly filing.

Discussion

As set forth in FCC rules¹ and USAC's By-laws,² each programmatic committee has authority over its programmatic budget. The USAC Board of Directors has responsibility for the USAC common budget and for the overall consolidated budget.

Section 54.709(a)(3) of the Commission's rules requires USAC to submit its projected quarterly budget to the FCC at least 60 days prior to the start of the quarter. USAC includes any costs that can be directly attributed to the High Cost, Low Income, Rural Health Care, and Schools and Libraries Support Mechanisms in the programmatic budget for each mechanism. USAC's remaining common costs are included in the programmatic budget for each mechanism based on the methodology for allocating costs on file with the Commission.³

Common costs include costs not directly attributed to a single support mechanism, such as common information systems support, federal Universal Service Fund (USF) billing, collection and disbursement activities, facilities and office expenses, Chief Executive Officer (CEO)/Chief Operating Officer (COO) compensation, Board expenses, and funding for Beneficiary and Contributor Audit Program (BCAP) contributor audits.

¹ 47 C.F.R. § 54.705.

² By-Laws of Universal Service Administrative Company, Article II, § 8.

³ See Letter from D. Scott Barash to Marlene Dortch regarding Revision to the Methodology for Allocating Joint and Common Administrative Costs Among the Universal Service Support Mechanisms, CC Docket Nos. 97-21 and 96-45 (Oct. 3, 2005); *superseding* Letter from Robert Haga to Magalie Salas regarding Revisions to the Method for Allocating Costs Among the Four Universal Service Support Mechanisms, CC Docket Nos. 96-45 and 97-21 (Jan. 28, 2000); Letter from Robert Haga to Magalie Salas regarding Revisions to the Method for Allocating Costs Among the Four Universal Service Support Mechanisms, CC Docket Nos. 96-45 and 97-21 (Apr. 1, 1999).

Common and Consolidated Operating Budgets

2Q2018 Common Operating Budget

Based on current operational responsibilities and requirements, USAC management estimates a common operating budget of \$24.71 million will be required to fund USAC activities in 2Q2018, which includes:

- \$13.22 million for compensation and benefits for 355 full time equivalents (FTEs).
- \$4.42 million for professional fees, including:
 - \$2.17 million for team contract labor.
 - \$0.86 million for Federal Information Security Management Act (FISMA) testing.
 - \$0.67 million for implementation costs information technology (IT) hardware and software.
 - \$0.04 million for systems operations and maintenance.
 - \$0.68 million for other miscellaneous administrative and other expenses.
- \$3.00 million for telephone and computer support (software licensing and maintenance agreements).
- \$1.86 million for rent.
- \$0.44 million for insurance and taxes.
- \$0.34 million for bank fees.
- \$0.25 million for USAC's annual financial statement audit and Agreed-Upon Procedures review.
- \$0.22 million for BCAP contributor revenue audits.
- \$0.21 million for legal professional fees.
- \$0.20 million for non-capitalized hardware purchases and rental equipment.
- \$0.55 million for recruitment, travel, meeting and conferences, training and education, printing, and personnel expenses.

2Q2018 Consolidated Operating Budget

On January 29, 2018, the High Cost & Low Income, Rural Health Care and Schools & Libraries Committees (Committees) reviewed their 2Q2018 direct operating cost budgets totaling \$28.86 million. The 2Q2018 common operating budget discussed above results in a 2Q2018 consolidated operating budget of \$53.57 million. As discussed above, common costs are allocated to each support mechanism based on the current allocation methodology on file with the Commission.

Following is a summary of 2Q2018 budgeted direct operating and allocated common operating costs, by support mechanism:

**2nd Quarter 2018 Operating Expenses
(in millions)**

| USF Mechanism | Direct Operating | USAC Common Operating | Total |
|-----------------------|------------------|-----------------------|----------------|
| High Cost | \$3.10 | \$8.43 | \$11.53 |
| Low Income | 6.26 | 4.58 | 10.84 |
| Rural Health Care | 1.84 | 1.25 | 3.09 |
| Schools and Libraries | 17.66 | 10.45 | 28.11 |
| Total | \$28.86 | \$24.71 | \$53.57 |

Common and Consolidated Capital Budgets

2Q2018 Common Capital Budget

USAC management estimates a common capital budget of \$0.42 million will be required to fund USAC activities in 2Q2018. These funds will be used for software development.

2Q2018 Consolidated Capital Budget

On January 29, 2018, the Committees reviewed their 2Q2018 direct capital budgets totaling \$1.21 million. The 2Q2018 common capital budget discussed above results in a 2Q2018 consolidated capital budget of \$1.63 million. As discussed above, common costs are allocated to each support mechanism based on the current allocation methodology on file with the Commission.

Following is a summary of 2Q2018 budgeted direct capital and common capital costs by support mechanism:

**2nd Quarter 2018 Capital Expenses
(in millions)**

| USF Mechanism | Direct Capital | USAC Common Capital | Total |
|-----------------------|----------------|---------------------|---------------|
| High Cost | \$0.13 | \$0.14 | \$0.27 |
| Low Income | 1.08 | 0.08 | 1.16 |
| Rural Health Care | 0.00 | 0.02 | 0.02 |
| Schools and Libraries | 0.00 | 0.18 | 0.18 |
| Total | \$1.21 | \$0.42 | \$1.63 |

Budget Attachments

Attachment A provides the details and compares the 2Q2018 common and consolidated budgets to 2nd Quarter 2017 actual expenditures.

Attachment B provides a summary of the 2Q2018 operating and capital budgets that were presented to the Committees.

Attachment C \ provides a comparison of the budget to actual expenditures for the 12 months ending December 31, 2017. Explanations are provided for significant variances.

Collection Requirement

Based on the 2Q2018 common and consolidated operating and capital budgets, USAC management estimates a collection requirement for 2Q2018 as follows:

2Q2018 Common Collection Requirement

| Common Collection Requirement | Requirement in Millions |
|--|--------------------------------|
| 2Q2018 Operating Budget | \$24.71 |
| 2Q2018 Capital Budget | 0.42 |
| Total Common Collection Requirement | \$25.13 |

2Q2018 Consolidated Collection Requirement

| Consolidated Collection Requirement | Requirement in Millions |
|--|--------------------------------|
| 2Q2018 Operating Budget | \$53.57 |
| 2Q2018 Capital Budget | 1.63 |
| Total Consolidated Collection Requirement | \$55.20 |

Management Recommendation

USAC management recommends the Board approve the budget and collection requirement as proposed.

Recommended USAC Board of Directors Action:

APPROVAL OF THE FOLLOWING RESOLUTIONS:

RESOLVED, that the USAC Board of Directors approves a 2nd Quarter 2018 common operating budget of \$24.71 million; and

RESOLVED FURTHER, that the USAC Board of Directors approves a 2nd Quarter 2018 common capital budget of \$0.42 million; and

RESOLVED FURTHER, that the USAC Board of Directors approves a 2nd Quarter 2018 consolidated operating budget of \$53.57 million; and

RESOLVED FURTHER, that the USAC Board of Directors approves a 2nd Quarter 2018 consolidated capital budget of \$1.63 million; and

RESOLVED FURTHER, that the USAC Board of Directors directs USAC staff to submit a collection requirement of \$25.13 million common costs in the required January 31, 2018 filing to the FCC on behalf of the USAC Board of Directors; and

RESOLVED FURTHER, that the USAC Board of Directors directs USAC staff to submit a collection requirement of \$55.20 million for consolidated costs in the required January 31, 2018 filing to the FCC on behalf of the USAC Board of Directors.

Briefing book excludes all materials discussed in Executive Session

| Expense Category | 2Q2017 Actual | 2Q2018 Budget | Increase/ (Decrease) | Explanations |
|---|---------------------|---------------------|----------------------|---|
| Compensation & Benefits | \$ 18,118.10 | \$ 19,794.36 | \$ 1,676.26 | 538 FTEs in 2Q2018 vs an average of 506 in 2Q2017 |
| Solix Costs | 9,375.00 | 8,348.48 | (1,026.52) | Reduction due to transition of call center support from Solix to new vendor and transaction based pricing in the new contract |
| External BCAP Costs | 1,686.87 | 2,144.53 | 457.66 | Increase in outsourced audit activity in 2Q2018 under the Beneficiary and Contributor Audit Program |
| Professional Fees & Contract Labor | 12,353.37 | 14,479.16 | 2,125.79 | Increase for Lifeline National Verifier (NV) business process outsource (BPO) vendor, E-Rate Productivity Center (EPC) operations and maintenance, FISMA testing, and call center |
| Rent | 1,769.40 | 1,856.47 | 87.07 | Additional space at OMC for full year offset by lower costs for co-location facilities |
| Telephone & Computer Support | 3,308.65 | 3,672.32 | 363.67 | Higher software maintenance costs |
| Bank Fees | 343.79 | 343.79 | - | |
| Legal Professional Fees | 107.51 | 212.50 | 104.99 | Assistance from outside counsel |
| Financial Audit and AUP | 243.25 | 246.25 | 3.00 | Annual audit of USAC's financial statements and agreed-upon procedures |
| Travel, Meetings & Conferences | 211.25 | 416.86 | 205.61 | Increased travel for programs, audit, and user support |
| Non-Capitalized Hardware & Equipment Rental | 124.43 | 199.67 | 75.25 | Increase in computer refresh costs to support growth |
| High Cost Data Collection | 98.67 | 98.67 | - | NECA contract to collect High Cost data |
| Insurance | 84.77 | 100.00 | 15.23 | Directors & Officers liability, cyber liability, workers compensation, auto/general liability, umbrella policy, and crime insurance |
| Taxes | 1,307.13 | 337.13 | (970.00) | Federal, franchise, property, and ballpark taxes. Decrease in federal income tax expense. |
| Other Expenses | 735.96 | 1,382.15 | 646.19 | Increase in postage costs related to Lifeline NV BPO. Baseline costs include recruitment, training and education, printing, postage, personnel expenses, Board of Directors expenses, repairs and maintenance, office supplies, subscriptions, and reference materials. |
| 499 Data Collection Billing | (57.10) | (63.66) | (6.56) | 24% of FCC Form 499 Data Collection expense billed to agents |
| Total Operating Costs | \$ 49,811.04 | \$ 53,568.68 | \$ 3,757.64 | |
| Total Capital Costs | \$ 4,316.29 | \$ 1,633.90 | \$ (2,682.39) | |
| Total Consolidated Budget | \$ 54,127.33 | \$ 55,202.58 | \$ 1,075.25 | |

| Expense Category | 2Q2017 Actual | 2Q2018 Budget | Increase/ (Decrease) | Explanations |
|---|---------------------|---------------------|----------------------|---|
| Compensation & Benefits | \$ 11,337.64 | \$ 13,215.00 | \$ 1,877.36 | 355 FTEs in 2Q2018 vs an average of 331 FTEs in 2Q2017 |
| External BCAP Costs | 274.82 | 224.96 | (49.86) | No outsourced contributor audits in 2Q2018 under the Beneficiary and Contributor Audit Program |
| Professional Fees & Contract Labor | 2,983.55 | 4,421.50 | 1,437.95 | Increase for FISMA testing and technology operations, offset by a decrease in contract labor |
| Rent | 1,769.40 | 1,856.46 | 87.06 | Additional space at OMC for full year offset by lower costs for co-location facilities |
| Telephone & Computer Support | 2,634.75 | 3,003.95 | 369.20 | Higher software maintenance costs |
| Bank Fees | 343.79 | 343.79 | - | |
| Legal Professional Fees | 107.51 | 212.50 | 104.99 | Assistance from outside counsel |
| Financial Audit and AUP | 243.25 | 246.25 | 3.00 | Annual audit of USAC's financial statements and agreed-upon procedures |
| Travel, Meetings & Conferences | 100.82 | 117.28 | 16.46 | Increased travel for user support |
| Non-Capitalized Hardware & Equipment Rental | 124.43 | 199.67 | 75.24 | Increase in computer refresh costs to support growth |
| Insurance | 84.77 | 100.00 | 15.23 | Directors & Officers liability, cyber liability, workers compensation, auto/general liability, umbrella policy, and crime insurance |
| Taxes | 1,307.13 | 337.13 | (970.00) | Federal, franchise, property, and ballpark taxes. Decrease in federal income tax expense. |
| Other Expenses | 570.45 | 490.56 | (79.89) | Decrease in recruitment fees. Baseline costs include recruitment, training and education, printing, postage, personnel expenses, Board of Directors expenses, repairs and maintenance, office supplies, subscriptions, and reference materials. |
| 499 Data Collection Billing | (57.10) | (63.66) | (6.56) | 24% of FCC Form 499 Data Collection expense billed to agents |
| Total Operating Costs | \$ 21,825.21 | \$ 24,705.39 | \$ 2,880.18 | |
| Total Capital Costs | \$ 394.09 | \$ 427.76 | \$ 33.67 | |
| Total Common Budget | \$ 22,219.30 | \$ 25,133.15 | \$ 2,913.85 | |

| Expense Category | 2Q2017 Actual | 2Q2018 Budget | Increase/ (Decrease) | Explanations |
|---|--------------------|--------------------|-------------------------|---|
| Direct Capital Spending | | | | |
| Schools & Libraries E-Rate Productivity Center (EPC) System Development | \$ 2,847.13 | \$ - | \$ (2,847.13) | EPC software development |
| Lifeline National Verifier (NV) System Development | 1,079.42 | 1,076.95 | (2.47) | NV software development |
| High Cost System Development | (4.35) | 129.19 | 133.54 | Enhancements to Connect America Portal (CAP) system |
| Total Direct Capital Costs | \$ 3,922.20 | \$ 1,206.14 | \$ (2,716.06) | |
| Non-Programmatic Capital Spending | | | | |
| IT Systems Operations | \$ 203.72 | \$ - | \$ (203.72) | Hardware and equipment refresh |
| IT Software Development | - | 427.76 | 427.76 | Corporate software development and shared IT testing and project management resources |
| OMC Office Move & Expansion | 190.37 | - | (190.37) | |
| Total Non-Programmatic Capital Spending | \$ 394.09 | \$ 427.76 | \$ 33.67 | |
| Total Capital Spending | \$ 4,316.29 | \$ 1,633.90 | \$ (2,682.39) | |

**2nd Quarter 2018 Budget
(in millions)**

On January 29, 2018, the Programmatic Committees reviewed their 2Q2018 direct program operating and capital budgets totaling \$30.07 million (\$28.86 million for operating and \$1.21 million for capital), as shown in the table below.

In the briefing paper for action item aBOD05, the USAC Board of Directors is requested to approve (1) common operating and capital budgets of \$25.13 million (\$24.71 million operating and \$0.42 million capital) and (2) the resulting consolidated operating and capital budgets of \$55.20 million (\$53.57 million for operating and \$1.63 million for capital).

| USF Mechanism | Direct Operating | Direct Capital | Total Direct Programmatic Budgets | USAC Common Operating | USAC Common Capital | Total Common | Total Operating | Total Capital | Total Consolidated |
|--------------------------------|------------------|----------------|-----------------------------------|-----------------------|---------------------|----------------|-----------------|---------------|--------------------|
| High Cost | \$3.10 | \$0.13 | \$3.23 | \$8.43 | \$0.14 | \$8.57 | \$11.53 | \$0.27 | \$11.80 |
| Low Income | 6.26 | 1.08 | 7.34 | 4.58 | 0.08 | 4.66 | 10.84 | 1.16 | 12.00 |
| Rural Health Care | 1.84 | 0.00 | 1.84 | 1.25 | 0.02 | 1.27 | 3.09 | 0.02 | 3.11 |
| Schools & Libraries | 17.66 | 0.00 | 17.66 | 10.45 | 0.18 | 10.63 | 28.11 | 0.18 | 28.29 |
| Total | \$28.86 | \$1.21 | \$30.07 | \$24.71 | \$0.42 | \$25.13 | \$53.57 | \$1.63 | \$55.20 |

| Operating Expenses | Actual | Budget | Variance | % | Explanations |
|---|----------------------|----------------------|---------------------|-----------|--|
| Compensation & Benefits | \$ 69,884.59 | \$ 74,179.30 | \$ 4,294.71 | 6% | |
| Solix Costs | 37,852.05 | 37,833.33 | (18.72) | 0% | |
| External BCAP Costs | 7,524.05 | 9,208.80 | 1,684.75 | 18% | Lower spending on outsourced and co-sourced audits under the Beneficiary and Contributor Audit Program |
| Professional Fees & Contract Labor | 34,833.99 | 40,629.24 | 5,795.25 | 14% | Lower spending on E-Rate Productivity Center (EPC) operations & maintenance |
| Rent | 7,402.39 | 7,399.28 | (3.11) | 0% | |
| Telephone & Computer Support | 13,697.67 | 12,463.10 | (1,234.57) | -10% | Higher spending on software maintenance agreements |
| Bank Fees | 1,375.14 | 1,375.14 | - | 0% | |
| Legal Professional Fees | 510.78 | 885.35 | 374.57 | 42% | Lower spending on outside counsel |
| Financial Audit and AUP | 1,142.21 | 1,124.21 | (18.00) | -2% | |
| Travel, Meetings & Conferences | 723.67 | 1,274.43 | 550.76 | 43% | Lower spending on travel, Schools & Libraries meetings and conferences |
| Non-Capitalized Hardware & Equipment Rental | 915.32 | 348.54 | (566.78) | -163% | Furniture and fixture purchases for 10th floor expansion project not capitalizable |
| High Cost Data Collection | 444.53 | 477.92 | 33.39 | 7% | |
| Insurance | 347.70 | 330.55 | (17.15) | -5% | |
| Taxes | 4,474.99 | 3,537.34 | (937.65) | -27% | Variance primarily due to increase in estimated Federal income tax expense |
| Other Expenses | 2,601.85 | 3,157.56 | 555.71 | 18% | Lower spending on postage, training and education |
| 499 Data Collection Billing | (229.45) | (216.36) | 13.09 | -6% | |
| Total Operating Expenses | \$ 183,501.48 | \$ 194,007.73 | \$ 10,506.25 | 5% | |

| Operating Expenses | Actual | Budget | Variance | % | Explanations |
|---|---------------------|---------------------|--------------------|-----------|--|
| Compensation & Benefits | \$ 46,731.89 | \$ 48,026.07 | \$ 1,294.18 | 3% | |
| External BCAP Costs | 1,770.68 | 2,193.95 | 423.27 | 19% | Lower spending on outsourced and co-sourced audits under the Beneficiary and Contributor Audit Program |
| Professional Fees & Contract Labor | 10,691.52 | 12,052.26 | 1,360.74 | 11% | Lower spending on user support staff augmentation and enterprise technology software development |
| Rent | 7,402.39 | 7,399.28 | (3.11) | 0% | |
| Telephone & Computer Support | 11,100.26 | 10,220.37 | (879.89) | -9% | |
| Bank Fees | 1,375.14 | 1,375.14 | - | 0% | |
| Legal Professional Fees | 416.11 | 885.35 | 469.24 | 53% | Lower spending on outside counsel |
| Financial Audit and AUP | 1,142.21 | 1,124.21 | (18.00) | -2% | |
| Travel, Meetings & Conferences | 301.64 | 438.27 | 136.63 | 31% | Lower spending on travel |
| Non-Capitalized Hardware & Equipment Rental | 915.32 | 348.54 | (566.78) | -163% | Furniture and fixture purchases for 10th floor expansion project not capitalizable |
| Insurance | 347.70 | 330.55 | (17.15) | -5% | |
| Taxes | 4,474.99 | 3,537.34 | (937.65) | -27% | Variance primarily due to increase in estimated Federal income tax expense |
| Other Expenses | 2,002.50 | 2,160.29 | 157.79 | 7% | |
| 499 Data Collection Billing | (229.45) | (216.36) | 13.09 | -6% | |
| Total Operating Expenses | \$ 88,442.90 | \$ 89,875.26 | \$ 1,432.36 | 2% | |

**Universal Service Administrative Company
Board of Directors Meeting**

ACTION ITEM

**Approval of April 2019 – January 2020 Board of Directors
Quarterly Meeting Schedule**

Issue:

The USAC Board of Directors (Board) is requested to approve a schedule for the quarterly Board and committee meetings for April 2019 through January 2020 to provide Board members and USAC staff sufficient lead time to plan for the meetings.

Background – Analysis – Justification:

The USAC Board of Directors is required to meet quarterly in Washington, D.C. At its January 2017 meeting, the Board approved quarterly meeting dates through January 2019 as follows:

| Executive Committee | Programmatic Committees & Board of Directors |
|----------------------------|---|
| April 19, 2018 | April 23-24, 2018 |
| July 19, 2018 | July 23-24, 2018 |
| October 25, 2018 | October 29-30, 2018 |
| January 24, 2019 | January 28-29, 2019 |

Below is the recommended schedule of meetings for April 2019 through January 2020:

| Executive Committee | Programmatic Committees & Board of Directors |
|----------------------------|---|
| April 25, 2019 | April 29-30, 2019 (Passover April 20 – 27, 2019) |
| July 25, 2019 | July 29-30, 2019 |
| October 24, 2019 | October 28-29, 2019 |
| January 23, 2020 | January 27-28, 2020 (Monday, January 20, 2020 is the Martin Luther King holiday.) |

Recommended USAC Board of Directors Action:

APPROVAL OF THE FOLLOWING RESOLUTION:

RESOLVED, that the USAC Board of Directors adopts the Board of Directors and committee quarterly meetings schedule for April 2019 – January 2020.

**Universal Service Administrative Company
Board of Directors Meeting**

INFORMATION ITEM

Business Update

Information Presented

This item provides the USAC Board of Directors (Board) with: (A) updates on Investment Committee meetings; and (B) updates on finance matters, including prior period adjustments, cash balances by program, accounts receivable, and audit recovery activity.

Discussion

A. Investment Committee Meetings

Investment Committee meetings are held semi-annually. Draft minutes for the meeting of July 24, 2017 are provided in **Attachment A**. The next Investment Committee meeting will be rescheduled for a later date.

B. Finance Updates

Finance Exhibits (**Attachments B-1 through B-4**) are included for informational purposes.

Prior Period Adjustments

Sixty days prior to the start of each quarter, USAC provides projected support mechanism demand and administrative expense data to the Federal Communications Commission (FCC). Thirty days prior to the start of the quarter, USAC submits projected Universal Service contributor revenue data to the FCC. The FCC uses these projections to establish the Universal Service contribution factor for the upcoming quarter, and USAC uses the resulting contribution factor to invoice Universal Service contributors once the quarter begins.

USAC management makes every effort to ensure that support mechanism demand and contributor revenue projections are as accurate as possible, but variations can be significant, depending on factors outside of USAC's control. Between the submission of projected support mechanism demand and the projected revenue base filing to the FCC and the start of the quarter, new data submitted to USAC may result in higher or lower billings and/or higher or lower disbursements. These variances result in what USAC refers to and reports as "prior period adjustments." Prior period adjustments reconcile projections to actual results and include adjustments for billings, disbursements, interest income, bad debt and administrative expenses.

A prior period adjustment for 4th Quarter 2017 (4Q2017) will be recorded in the 2nd Quarter 2018 (2Q2018) fund size projection and is summarized in the following chart:

| | 4Q2017 Filed Projection | Actual | Variance From Filed Projection* | Variance as a % of Filed Projection |
|-------------------------|-------------------------------|------------|---------------------------------------|--|
| | (in millions) | | | |
| LI Disbursements | (\$319.89) | (\$309.56) | (\$10.33) | 3.23% |
| Billings | \$2,043.18 | \$2,044.10 | (\$0.92) | (0.05%) |
| Interest Income | \$16.52 | \$16.95 | (\$0.43) | (2.60%) |
| Bad Debt Expense | (\$20.65) | (\$2.00) | (\$18.65) | 90.31% |
| Total USF PPA | | | (\$30.33) | |

*Results that increase the 2Q2018 collection requirement are shown as a positive variance, and results that decrease the 2Q2018 collection requirement are shown as a negative variance.

Cash Balances by Program

As of December 31, 2017, the Universal Service Fund (USF) balance at Bank of America was \$6,825.41 million.

USF cash and accrual activities for the quarter and year to date are provided in **Attachment B-1**. Additional information about cash balances by program, including funds reserved pursuant to the *USF/ICC Transformation Order*,¹ are included in **Attachment B-2**.

Accounts Receivable

Attachment B-3 provides an analysis of the accounts receivable (A/R) balance as of November 30, 2017.

Audit Recovery Activity

Attachment B-4 provides an update on audit recovery activities.

¹ *Connect America Fund et al.*, WC Docket No. 10-92 et al., GN Docket No. 09-51, CC Docket No. 01-92 et al., WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (2011) (*USF/ICC Transformation Order*).

Matters to Be Discussed in Executive Session

The following business updates shall be discussed in *Executive Session*:

- Engagement Survey Update (**Attachment C**);
- Lifeline Improper Payment Rate (**Attachment D**); and
- OGC Update (**Attachment E**).

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

APPROVAL OF INVESTMENT COMMITTEE ACTION
TAKEN BY UNANIMOUS CONSENT
(DRAFT)

On Friday, July 21, 2017, briefing papers were circulated to the Investment Committee (Committee) considering the approval of Committee meeting minutes of September 23, 2016 and the projected funding requirements for 3rd quarter 2107 and 4th quarter 2017, as well as the suggested investment strategy for the following six months. Materials were also presented for Committee review regarding 3rd Quarter 2016 through 2nd quarter 2017 investment results.

For the period ending June 30, 2017, the Universal Service Fund (USF) had a fund balance of \$7.584 billion on an accrual basis and \$7.398 billion on a cash basis. Pursuant to Federal Communications Commission (FCC) guidelines, 100 percent of the USF's investments were held in United States Treasury securities with maturity dates not exceeding three years. As of June 30, 2017, twenty percent of USF investments were held in Treasury bills and the remaining eighty percent were held in Treasury notes.

USAC projected a cash and investment balance of \$7.121 billion on September 30, 2017 and \$6.977 billion on December 31, 2017.

USAC projected interest income of \$16 million in 3Q2017 and \$16 million in 4Q2017, based on the year-to-date daily average portfolio purchase cost, the current maturity profile of investments, and a weighted annual return for Treasury bills and Treasury notes held in the current portfolio.

Voting was conducted electronically for this matter pursuant to Article II, Section 9 of USAC's By-laws.¹ Responses were timely received by July 24, 2017, providing unanimous consent from all four members of the Investment Committee on the adoption of the following resolutions:

RESOLVED, that the USAC Investment Committee approves the minutes as written of the Investment Committee meeting minutes of September 23, 2016.

¹ USAC By-laws, Article II, § 9 ("Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.").

RESOLVED, that the USAC Investment Committee recommends no change to the Universal Service Fund investment strategy at this time.

/s/ Vickie Robinson
Assistant Secretary

**UNIVERSAL SERVICE FUND ACTIVITY
FUND BALANCE - ACCRUAL BASIS
2017**

| | SL Program | High Cost Program | Low Income Program | RHC Program | Total |
|------------------------------------|------------------------|------------------------|----------------------|----------------------|------------------------|
| Cash at 12/31/16 | \$5,231,347,337 | \$2,223,354,968 | \$71,335,310 | \$421,412,141 | \$7,947,449,756 |
| First Q 2017 Activity: | | | | | |
| Receipts on billings | \$405,414,309 | \$1,137,480,392 | \$375,834,633 | \$112,255,612 | \$2,030,984,946 |
| Program Disbursements | (634,817,328) | (1,144,239,299) | (334,228,068) | (43,617,248) | (2,156,901,943) |
| Administrative Disb. | (23,900,456) | (16,296,734) | (7,704,911) | (2,853,065) | (50,755,165) |
| Interest Received | 11,170,050 | 4,584,510 | 160,216 | 774,377 | 16,689,152 |
| Refunds | (329,268) | (922,103) | (297,595) | (74,778) | (1,623,744) |
| Misc. Receipts | 0 | 0 | 0 | 0 | 0 |
| Cash at 3/31/17 | \$4,988,884,644 | \$2,203,961,735 | \$105,099,585 | \$487,897,039 | \$7,785,843,003 |
| Second Q 2017 Activity: | | | | | |
| Receipts on billings | \$397,669,161 | \$1,117,140,663 | \$356,157,945 | \$96,525,439 | \$1,967,493,208 |
| Program Disbursements | (748,374,390) | (1,158,489,856) | (314,944,153) | (79,230,983) | (2,301,039,382) |
| Administrative Disb. | (26,849,205) | (18,598,312) | (8,825,232) | (3,162,150) | (57,434,899) |
| Interest Received | 9,647,046 | 4,012,990 | 128,196 | 740,250 | 14,528,482 |
| Refunds | (2,108,150) | (5,922,951) | (1,876,974) | (529,707) | (10,437,783) |
| Misc. Receipts | 0 | 0 | 0 | 0 | 0 |
| Cash at 6/30/17 | \$4,618,869,105 | \$2,142,104,269 | \$135,739,366 | \$502,239,888 | \$7,398,952,629 |
| Third Q 2017 Activity: | | | | | |
| Receipts on billings | \$449,203,746 | \$1,092,464,522 | \$301,647,557 | \$33,993,394 | \$1,877,309,220 |
| Program Disbursements | (685,109,152) | (1,174,230,736) | (308,769,837) | (98,681,598) | (2,266,791,323) |
| Administrative Disb. | (23,444,456) | (16,319,673) | (7,717,678) | (2,763,491) | (50,245,298) |
| Interest Received | 16,610,408 | 6,993,058 | 278,104 | 1,400,634 | 25,282,204 |
| Refunds | (389,547) | (883,972) | (224,739) | 0 | (1,498,257) |
| Misc. Receipts | 0 | 0 | 0 | 0 | 0 |
| Cash at 9/30/17 | \$4,375,740,105 | \$2,050,127,469 | \$120,952,774 | \$436,188,827 | \$6,983,009,175 |
| Fourth Q 2017 Activity: | | | | | |
| Receipts on billings | \$492,455,634 | \$1,126,075,751 | \$285,414,283 | \$71,983,842 | \$1,975,929,511 |
| Program Disbursements | (552,468,761) | (1,194,901,045) | (310,527,535) | (40,424,375) | (2,098,321,716) |
| Administrative Disb. | (20,608,434) | (14,345,519) | (6,784,088) | (2,429,198) | (44,167,239) |
| Interest Received | 10,486,872 | 4,815,211 | 285,789 | 1,183,243 | 16,771,115 |
| Refunds | (1,909,530) | (4,381,561) | (1,108,090) | (412,133) | (7,811,314) |
| Misc. Receipts | 0 | 0 | 0 | 0 | 0 |
| Cash at 12/31/17 | \$4,303,695,887 | \$1,967,390,305 | \$88,233,134 | \$466,090,206 | \$6,825,409,532 |
| Year to Date 2017 Activity: | | | | | |
| Receipts on billings | \$1,744,742,850 | \$4,473,161,328 | \$1,319,054,418 | \$314,758,288 | \$7,851,716,884 |
| Program Disbursements | (2,620,769,631) | (4,671,860,936) | (1,268,469,594) | (261,954,204) | (8,823,054,363) |
| Administrative Disb. | (94,802,551) | (65,560,237) | (31,031,908) | (11,207,905) | (202,602,600) |
| Interest Received | 47,914,376 | 20,405,769 | 852,305 | 4,098,504 | 73,270,953 |
| Refunds | (4,736,495) | (12,110,587) | (3,507,397) | (1,016,618) | (21,371,098) |
| Misc. Receipts | 0 | 0 | 0 | 0 | 0 |
| Cash YTD | \$4,303,695,887 | \$1,967,390,305 | \$88,233,134 | \$466,090,206 | \$6,825,409,532 |

UNIVERSAL SERVICE FUND ACTIVITY
FUND BALANCE - ACCRUAL BASIS
2017

| | SL Program | High Cost Program | Low Income Program | RHC Program | Total |
|--------------------------------|------------------------|------------------------|----------------------|----------------------|------------------------|
| Fund Balance 12/31/16 | \$5,298,705,679 | \$2,288,285,327 | \$120,101,965 | \$462,180,460 | \$8,169,273,432 |
| First Q 2017 Activity: | | | | | |
| Billings | \$407,132,950 | \$1,140,092,712 | \$367,985,551 | \$92,347,710 | \$2,007,558,923 |
| Late Charges net of waived | 230,909 | 999,666 | 201,612 | 45,986 | 1,478,172 |
| Late Filing fee | (43,512) | (121,846) | (39,328) | (9,870) | (214,556) |
| Inter-Program Transfers | 0 | 0 | 0 | 0 | 0 |
| Deferred Payment Plan Fees | 203 | 1,568 | 7,183 | 46 | 9,000 |
| Bad Debt expense | (1,312,740) | (3,676,060) | (1,186,515) | (297,762) | (6,473,076) |
| Bad Debt expense (COMAD) | (5,645,449) | (370,724) | 7,296,955 | 0 | 1,280,783 |
| Program Disbursements | (630,193,726) | (1,207,277,314) | (342,467,118) | (43,319,488) | (2,223,257,646) |
| Future Funded Expenses | 0 | 40,000,000 | 11,000,000 | 0 | 51,000,000 |
| Admin Expenses | (28,988,085) | (11,270,798) | (7,382,319) | (3,214,142) | (50,855,343) |
| Interest Income | 11,015,288 | 4,527,884 | 410,137 | 763,763 | 16,717,072 |
| Fund Balance 3/31/17 | \$5,050,901,516 | \$2,251,190,416 | \$155,928,123 | \$508,496,706 | \$7,966,516,760 |
| Second Q 2017 Activity: | | | | | |
| Billings | \$395,947,356 | \$1,113,562,933 | \$352,432,031 | \$99,378,504 | \$1,961,320,823 |
| Late Charges net of waived | (54,686) | 1,039,947 | (51,491) | (13,823) | 919,948 |
| Late Filing fee | 52,938 | 148,724 | 47,120 | 13,287 | 262,069 |
| Inter-Program Transfers | 0 | 0 | 0 | 0 | 0 |
| Deferred Payment Plan Fees | 2,202 | 568 | 180 | 51 | 3,000 |
| Bad Debt expense | (222,729) | (625,736) | (198,251) | (55,903) | (1,102,619) |
| Bad Debt expense (COMAD) | (20,601,716) | (1,201,095) | 905 | (1,003,582) | (22,805,489) |
| Program Disbursements | (725,697,936) | (1,162,599,105) | (323,885,794) | (78,183,347) | (2,290,366,182) |
| Future Funded Expenses | 0 | (494,000) | 948,000 | 0 | 454,000 |
| Admin Expenses | (24,403,728) | (12,637,247) | (9,162,077) | (2,706,566) | (48,909,618) |
| Interest Income | 11,298,013 | 4,707,551 | 481,113 | 867,031 | 17,353,708 |
| Fund Balance 6/30/17 | \$4,687,221,229 | \$2,193,092,955 | \$176,539,860 | \$526,792,356 | \$7,583,646,401 |
| Third Q 2017 Activity: | | | | | |
| Billings | 468,378,830 | 1,064,010,392 | 270,886,058 | 535,134 | 1,803,810,414 |
| Late Charges net of waived | (198,985) | 402,179 | (136,430) | (10,193) | 56,571 |
| Late Filing fee | 59,235 | 134,418 | 34,174 | 0 | 227,826 |
| Inter-Program Transfers | 0 | 0 | 0 | 0 | 0 |
| Deferred Payment Plan Fees | 0 | 0 | 0 | 0 | 0 |
| Bad Debt expense | 395,388 | 897,227 | 228,109 | 0 | 1,520,724 |
| Bad Debt expense (COMAD) | (2,568,063) | (910,278) | 4,150 | 1,003,582 | (2,470,608) |
| Program Disbursements | (682,081,525) | (1,155,416,816) | (314,243,261) | (92,920,263) | (2,244,661,865) |
| Future Funded Expenses | 0 | 1,322,000 | (1,592,000) | 0 | (270,000) |
| Admin Expenses | (24,237,542) | (9,636,468) | (7,839,908) | (2,658,011) | (44,371,929) |
| Interest Income | 11,205,472 | 4,723,561 | 276,391 | 944,276 | 17,149,700 |
| Fund Balance 9/30/17 | \$4,458,174,039 | \$2,098,619,170 | \$124,157,143 | \$433,686,881 | \$7,114,637,235 |
| Fourth Q 2017 Activity: | | | | | |
| Billings | 503,336,999 | 1,158,222,591 | 292,969,270 | 108,411,307 | 2,062,940,167 |
| Late Charges net of waived | 193,235 | 1,194,730 | 74,095 | 67,755 | 1,529,814 |
| Late Filing fee | 72,364 | 154,622 | 39,286 | 16,866 | 283,139 |
| Inter-Program Transfers | 0 | 0 | 0 | 0 | 0 |
| Deferred Payment Plan Fees | 244 | 561 | 142 | 53 | 1,000 |
| Bad Debt expense | (486,724) | (1,116,824) | (282,443) | (105,049) | (1,991,040) |
| Bad Debt expense (COMAD) | (1,768,122) | (910,816) | (248) | (5,973,104) | (8,652,290) |
| Program Disbursements | (549,305,548) | (1,175,800,791) | (309,563,713) | (40,247,271) | (2,074,917,323) |
| Future Funded Expenses | 0 | 1,158,000 | (2,880,000) | 0 | (1,722,000) |
| Admin Expenses | (26,286,457) | (8,789,808) | (7,113,396) | (2,278,193) | (44,467,853) |
| Interest Income | 10,541,132 | 4,846,399 | 369,958 | 1,189,244 | 16,946,732 |
| Fund Balance 12/31/17 | \$4,394,471,163 | \$2,077,577,834 | \$97,770,095 | \$494,768,488 | \$7,064,587,580 |

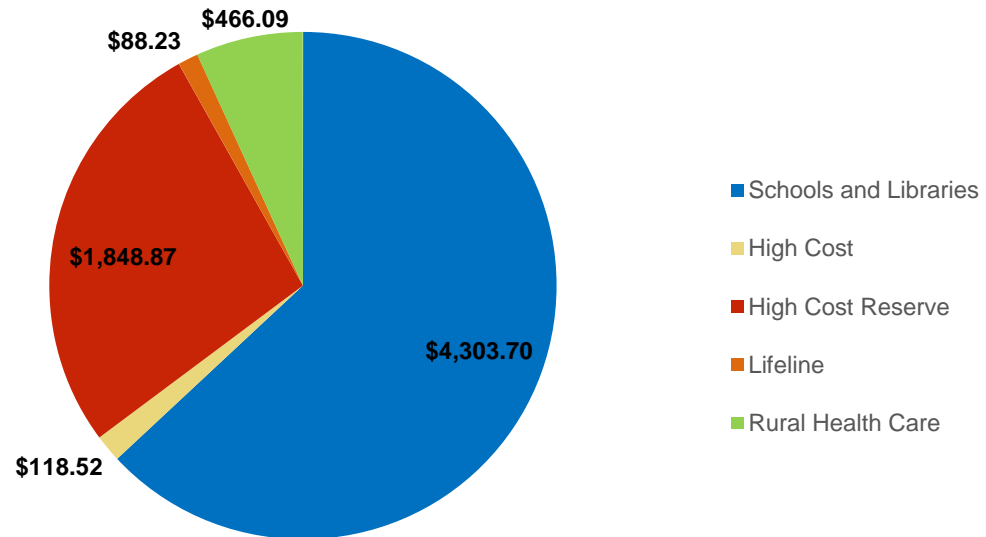
USAC Board of Directors Meeting

iBOD01 Attachment B-2
Cash Reserves By Program
as of December 31, 2017



CASH BALANCE BY PROGRAM

As of December 31, 2017
(in millions)



SCHOOLS AND LIBRARIES

| Cash Reserve by Funding Year (in millions) | | | | | |
|--|-------------------------------|-------------------|-------------------|-------------------|-------------|
| | Fund Year 2014 and earlier | Fund Year 2015 | Fund Year 2016 | Fund Year 2017 | Total |
| Available Cash | \$ 616.73 | \$ 300.04 | \$ 1,323.09 | \$ 2,063.84 | \$ 4,303.70 |
| Obligated, Unpaid | (207.73) | (126.60) | (823.18) | (1,748.40) | (2,905.91) |
| Unobligated Cash | \$ 408.99 | \$ 173.44 | \$ 499.91 | \$ 315.44 | \$ 1,397.79 |
| Reserve for Pending Applications | (90.25) | (74.38) | (26.25) | 228.05 | 37.17 |
| Reserve for Appeals | (387.93) | (9.60) | (410.13) | (1.25) | (808.91) |
| Available for Rollover | \$ (69.18) | \$ 89.46 | \$ 63.53 | \$ 542.24 | \$ 626.05 |

HIGH COST

| Cash (in millions) | |
|--|------------------|
| Cash | \$ 1,967.39 |
| Reserved Cash | 1,848.87 |
| Cash Available to Cover Prior Funding Decisions ⁽¹⁾ | \$ 118.52 |

LIFELINE

| Cash (in millions) | |
|--|----------|
| Cash | \$ 88.23 |
| Reserved Cash | - |
| Cash Available to Fund Current Month Payments | \$ 88.23 |

USAC Board of Directors Meeting

iBOD01 Attachment B-3
Accounts Receivable
as of November 30, 2017



Universal Service
Administrative Co.

ACCOUNTS RECEIVABLE (A/R) BALANCE

As of November 30, 2017

| <i>in thousands</i> | Total Balance | 0-90 days | 91-180 days | 181-365 days | 1-2 years | 2years + | % of Total A/R |
|---------------------------|----------------------|------------------|--------------------|---------------------|------------------|------------------|-----------------------|
| Total Active A/R | \$713,655 | \$695,519 | \$5,485 | \$4,939 | \$3,317 | \$4,396 | 65.23% |
| % of Total Active A/R | 100.00% | 97.46% | 0.77% | 0.69% | 0.46% | 0.62% | |
| Total Inactive A/R | \$380,464 | \$11,651 | \$22,465 | \$37,027 | \$10,367 | \$298,954 | 34.77% |
| % of Total Inactive A/R | 100.00% | 3.06% | 5.90% | 9.73% | 2.72% | 78.58% | |
| Total A/R | \$1,094,119 | \$707,170 | \$27,950 | \$41,966 | \$13,684 | \$303,350 | 100% |

- \$714 million of Total A/R is being actively pursued by USAC, 97% of which is less than 91 days old.
- \$380 million is inactive and USAC is not permitted to pursue collection.
- USAC's collection efforts include delinquency notices, placing the entities on Red Light to prevent program support, and charging interest and penalties on contributor balances.

ACTIVE A/R

As of November 30, 2017

| <i>in thousands</i> | Total Balance | 0-90 days | 91-180 days | 181-365 days | 1-2 years | 2years + | % of Active A/R |
|-------------------------|----------------------|------------------|--------------------|---------------------|------------------|-----------------|------------------------|
| Contributions | \$702,398 | \$692,651 | \$3,223 | \$760 | \$3,123 | \$2,642 | 98.42% |
| COMADS - SLD | 6,728 | 1,940 | 2,257 | 1,580 | 37 | 914 | 0.94% |
| COMADS - RHC | 570 | 0 | 0 | 0 | 0 | 570 | 0.08% |
| HC/LI/SL Recoveries | 933 | 928 | 5 | 0 | 0 | 0 | 0.13% |
| Payment Plan | 3,026 | 0 | 0 | 2,599 | 157 | 270 | 0.42% |
| Total Active A/R | \$713,655 | \$695,519 | \$5,485 | \$4,939 | \$3,317 | \$4,396 | 100.00% |

- 98% of active A/R is related to routine contributor billings.
- Contributor debts are transferred to the U.S. Treasury pursuant to DCIA by 120 days delinquent.
- As of December 2015, we have reinstated the transfer of programmatic debts to Treasury.

INACTIVE A/R

As of November 30, 2017

| <i>in thousands</i> | Total Balance | 1-90 days | 91-180 days | 181-365 days | 1-2 years | 2years + | % of Inactive A/R |
|---------------------------|----------------------|------------------|--------------------|---------------------|------------------|------------------|--------------------------|
| A/R on Appeal or Hold | \$233,785 | \$11,651 | \$22,465 | \$36,734 | \$5,913 | \$157,022 | 61.45% |
| Pre-Petition Bankruptcy | 32,367 | 0 | 0 | 44 | 99 | 32,224 | 8.51% |
| Transferred to Treasury | 114,312 | 0 | 0 | 249 | 4,355 | 109,708 | 30.05% |
| Total Inactive A/R | \$380,464 | \$11,651 | \$22,465 | \$37,027 | \$10,367 | \$298,954 | 100.00% |

- 61% of inactive A/R is related to amounts on appeal or hold.
- Inactive A/R is nearly fully reserved based on USAC's analysis of the collectability.

USAC Board of Directors Meeting

iBOD01 Attachment B-4
Audit Recovery Status Report
as of December 31, 2017



REPORT SUMMARY

- ❑ The attached data provides a summary of the audit recovery activities during the three-month period of October 1 through December 31, 2017.
- ❑ In addition to amounts recovered, the report displays amounts associated with pending appeals, guidance, collections in progress, and finalized audits with recovery amounts outstanding greater than one year.

HIGHLIGHTS

- ❑ Balance of outstanding audit recoveries at December 31, 2017 is \$172.3 million, related to 208 audits for which full recovery has not been achieved.
- ❑ Balances by program:
 - Schools and Libraries \$60.9 million (141 audits)
 - Low Income \$6.4 million (16 audits)
 - High Cost \$3.5 million (16 audits)
 - Rural Health Care \$0.002 million (1 audit)
 - Contributors \$101.5 million (34 audits)
- ❑ Estimated amounts pending guidance at the FCC total \$109.3 million. Contributor and Schools and Libraries audits comprise 99% of these items.
- ❑ Amounts under appeal at the FCC total \$24.9 million.
- ❑ Outstanding balances greater than one year old total \$164.1 million. Most of these balances relate to pending guidance items.

AUDIT STATUS RECOVERY REPORT

| Description | High Cost | | Low Income | | Rural Health Care | | Schools & Libraries | | Contributors | | TOTAL | |
|---|------------|------------------|------------|------------------|-------------------|------------------|---------------------|-------------------|--------------|--------------------|-------------|-----------------------|
| | # audits | Cost | # audits | Cost | # audits | Cost | # audits | Cost | # audits | Cost | # audits | Cost |
| A1. Beginning Balance - 10.1.17 | 15 | 2,846,273 | 21 | 6,454,449 | 1 | 1,860 | 151 | 60,888,193 | 38 | 107,173,395 | 226 | \$ 177,364,170 |
| A2 Adjustment - Prior Audits: Auditor Recommended Recovery Adjusted by USAC Management | 0 | - | 1 | 18 | 1 | 112,819 | (2) | (278,804) | (1) | (2,888,484) | (1) | \$ (3,054,452) |
| B. New Audits during the period (10.1.17-12.31.17) | 5 | 661,758 | 1 | 999 | 0 | - | 4 | 466,480 | 1 | 24 | 11 | \$ 1,129,261 |
| C. Total | 20 | 3,508,031 | 23 | 6,455,466 | 2 | 114,679 | 153 | 61,075,869 | 38 | 104,284,935 | 236 | \$ 175,438,980 |
| D. Activity during the period | | | | | | | | | | | | |
| 1. New Recoveries during the period | | | | | | | | | | | | |
| (A) Collections and offsets | (4) | \$ (54,522) | (7) | (12,684) | (1) | (112,819) | (12) | (189,609) | (4) | (2,749,876) | (28) | \$ (3,119,511) |
| 2. Write-offs | | | | | | | | | | | | |
| (A) DCIA Transfers to the | | | | | | | | | | | 0 | \$ - |
| (B) Granted Appeals | 0 | - | 0 | - | 0 | 0 | 0 | - | 0 | - | 0 | \$ - |
| Total | (4) | (54,522) | (7) | (12,684) | (1) | (112,819) | (12) | (189,609) | (4) | (2,749,876) | (28) | \$ (3,119,511) |
| E. Ending Balance - 12.31.17 | 16 | 3,453,509 | 16 | 6,442,782 | 1 | 1,860 | 141 | 60,886,260 | 34 | 101,535,058 | 208 | \$ 172,319,469 |
| Balance by Recovery Status | | | | | | | | | | | | |
| Appeal Review FCC | | 2,609,080 | | 2,651,491 | | 1,860 | | 19,598,900 | | - | | \$ 24,861,331 |
| Appeal Review USAC | | 60,258 | | 1,653,143 | | - | | 3,348,180 | | - | | \$ 5,061,581 |
| Pending FCC Guidance | | - | | 1,084,440 | | - | | 11,209,646 | | 97,039,881 | | \$ 109,333,967 |
| Collections in Progress | | 784,171 | | 1,053,708 | | - | | 26,729,534 | | 4,495,178 | | \$ 33,062,590 |
| Total | | 3,453,509 | | 6,442,782 | | 1,860 | | 60,886,260 | | 101,535,058 | | \$ 172,319,469 |
| Finalized Audits with Amounts Outstanding Greater than One Year | | | | | | | | | | | | |
| Total Amount | | 2,713,676 | | 6,435,445 | | 1,860 | | 57,652,700 | | 97,342,463 | | \$ 164,146,144 |
| Number of Audits | | 9 | | 12 | | 1 | | 136 | | 27 | | 185 |



USAC Board of Directors Meeting

iBOD04 013018 Attachment B
Contributors and Providers Business Update

CONTRIBUTION FACTOR COMPARISON - QUARTERLY

| | 2Q18 | 1Q18 | 4Q17 | 3Q17 | 2Q17 | Quarterly Change | Annual Change |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|------------------|---------------|
| Program Demand*: | | | | | | | |
| High Cost | \$1,069 | \$1,068 | \$1,130 | \$1,130 | \$1,134 | \$1 | (\$65) |
| Low Income | \$320 | \$328 | \$334 | \$339 | \$385 | (\$8) | (\$65) |
| Schools and Libraries | \$510 | \$507 | \$494 | \$504 | \$404 | \$3 | \$106 |
| Rural Health Care | \$99 | \$99 | \$106 | \$99 | \$101 | \$0 | (\$2) |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | \$1,998 | \$2,001 | \$2,064 | \$2,072 | \$2,024 | (\$4) | (\$26) |
| Prior Period Adjustments: | | | | | | | |
| Billing/Interest/Bad Debt | (\$20) | \$89 | \$28 | (\$27) | (\$7) | (\$109) | (\$13) |
| LI Disbursement vs. Expected | (\$10) | (\$16) | (\$50) | (\$50) | (\$26) | \$6 | \$16 |
| Admin. Cost True-up | \$0 | \$7 | \$0 | \$0 | \$0 | (\$7) | \$0 |
| RHC True-Ups & Adjustments | \$0 | \$0 | \$0 | (\$99) | \$0 | \$0 | \$0 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | \$1,968 | \$2,081 | \$2,042 | \$1,896 | \$1,991 | (\$114) | (\$23) |
| Contribution base - 2Q18 estimated | \$12,806 | \$12,872 | \$13,026 | \$13,110 | \$13,615 | (\$66) | (\$809) |
| Contribution factor - 2Q18 estimated | 18.4% | 19.5% | 18.8% | 17.1% | 17.4% | -1.1% | 1.0% |

| | Quarterly Change | | Annual Change | |
|---|---------------------|------------------|---------------------|------------------|
| | <i>in millions</i> | <i>percent</i> | <i>in millions</i> | <i>percent</i> |
| Key Components of Quarterly Change | Change + / - | Pro Forma | Change + / - | Pro Forma |
| HC Demand | \$1 | 0.01% | (\$65) | -0.83% |
| LI Demand | (\$8) | -0.08% | (\$65) | -0.83% |
| SL Demand | \$3 | 0.03% | \$106 | 1.35% |
| RHC Demand | \$0 | 0.01% | (\$2) | -0.02% |
| Billing/Bad Debt/Interest | (\$109) | -1.15% | (\$13) | -0.16% |
| LI Disbursement vs. Expected | \$6 | 0.06% | \$16 | 0.20% |
| Admin. Cost True-up | (\$7) | -0.08% | \$0 | 0.00% |
| RHC True-Ups & Adjustments | \$0 | 0.00% | \$0 | 0.00% |
| Contribution Base | (\$66) | 0.10% | (\$809) | 1.30% |
| | | -1.10% | | 1.01% |

CONTRIBUTION FACTOR COMPARISON - QUARTERLY

Finance :

- The chart represents the components of the Contribution Factor over the last 5 quarters.
- Bottom line - 2Q18 contribution factor is to be 18.4%. This is 1.1% decrease over 1Q18 and is .2% higher than the average contribution factor for the past four quarters.
- Primary reason for the 1.2% decrease in the contribution factor from 1Q18 is due to change in billing adjustments of \$128 million. In 3Q17 USAC issued credits totaling \$123M for the A/Q True Up. This reduction in billing in 2017 inflated the 1Q18 contribution factor.
- 2Q18 Contribution Base is an estimate. USAC will have the actual contribution base on March 2, 2018. Based on average quarterly decrease over the past 8 quarters the Contribution Factor could increase .4%

| | 2Q17 | 3Q17 | 4Q17 | 1Q18 | 2Q18 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| High Cost | \$1,125 | \$1,125 | \$1,125 | \$1,060 | \$1,059 |
| Low Income | \$374 | \$330 | \$320 | \$313 | \$308 |
| Schools and Libraries | \$380 | \$487 | \$487 | \$487 | \$487 |
| Rural Health Care | \$99 | \$97 | \$105 | \$97 | \$97 |
| | ----- | ----- | ----- | ----- | ----- |
| Program Demand | \$1,978 | \$2,039 | \$2,036 | \$1,956 | \$1,951 |
| USAC Admin Costs | \$63 | \$49 | \$45 | \$61 | \$55 |
| Less: Interest Income | (\$16) | (\$15) | (\$17) | (\$15) | (\$8) |
| | ----- | ----- | ----- | ----- | ----- |
| Program Demand before PPA | \$2,025 | \$2,072 | \$2,065 | \$2,001 | \$1,998 |
| Prior Period Adjustments: | | | | | |
| Billing/Interest/Bad Debt | (\$7) | (\$27) | \$28 | \$89 | (\$20) |
| LI Disbursement vs. Expected | (\$26) | (\$50) | (\$50) | (\$16) | (\$10) |
| Admin. Cost True-up | \$0 | \$0 | \$0 | \$7 | \$0 |
| RHC True-Ups & Adjustments | \$0 | (\$99) | \$0 | \$0 | \$0 |
| | ----- | ----- | ----- | ----- | ----- |
| Total Demand | \$1,992 | \$1,896 | \$2,043 | \$2,081 | \$1,968 |
| Contribution base - 2Q18 est | \$13,615 | \$13,110 | \$13,026 | \$12,872 | \$12,806 |
| Contribution factor - 2Q18 est | 17.4% | 17.1% | 18.8% | 19.5% | 18.4% |

USF REVENUE BREAKDOWN - QUARTERLY

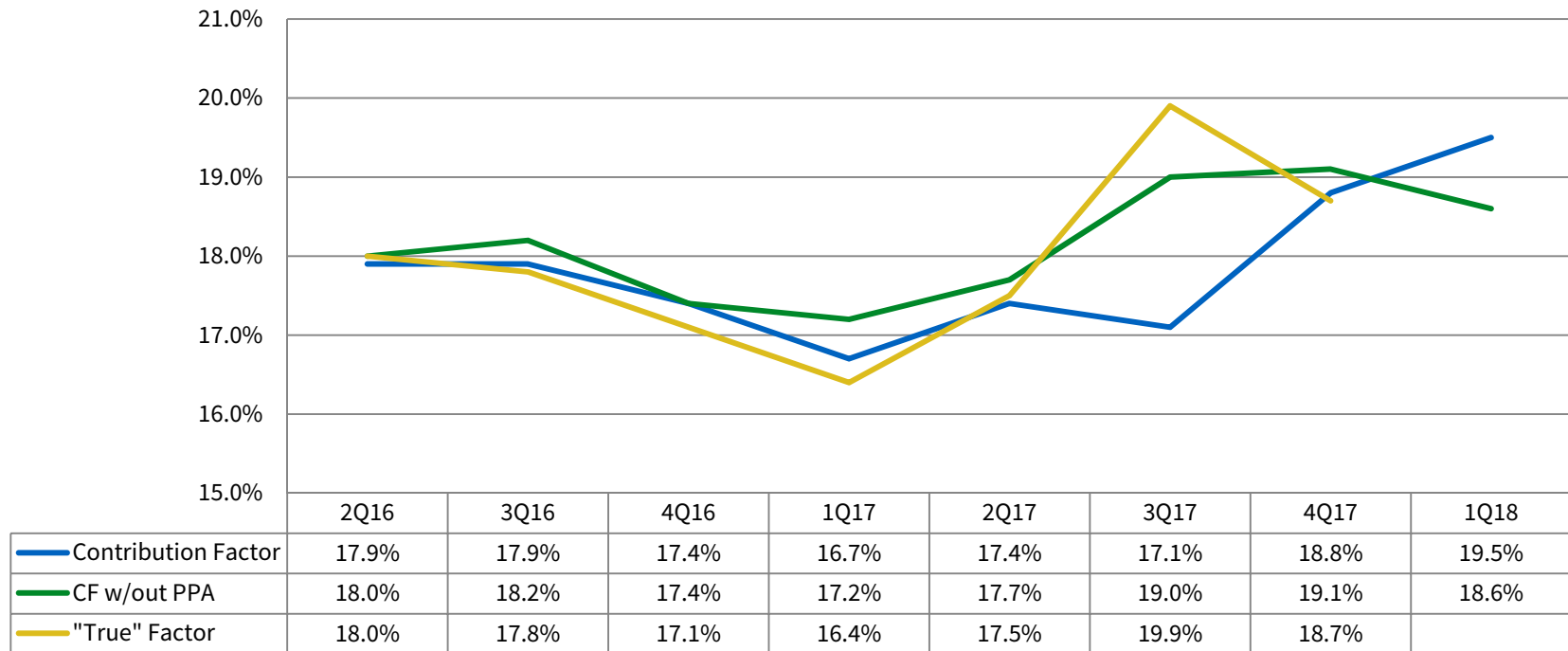
| | 4Q16 | 1Q17 | 2Q17 | 3Q17 | 4Q17 |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Forecast | | | | | |
| Billing | \$2,105 | \$1,998 | \$2,011 | \$1,916 | \$2,064 |
| Bad Debt Expense | (\$21) | (\$20) | (\$20) | (\$19) | (\$21) |
| Interest | \$14 | \$15 | \$16 | \$15 | \$17 |
| | ----- | ----- | ----- | ----- | ----- |
| Total Forecasted Revenues | \$2,098 | \$1,993 | \$2,007 | \$1,912 | \$2,060 |
| Actual | | | | | |
| Billings | \$2,084 | \$1,996 | \$1,994 | \$1,927 | \$2,060 |
| Billing Adjustments | \$9 | \$13 | (\$31) | (\$123) | \$5 |
| Bad Debt Expense | (\$4) | (\$6) | (\$1) | \$2 | (\$2) |
| Interest | \$16 | \$17 | \$17 | \$17 | \$17 |
| | ----- | ----- | ----- | ----- | ----- |
| Total Actual Revenues | \$2,105 | \$2,020 | \$1,979 | \$1,823 | \$2,080 |
| | ----- | ----- | ----- | ----- | ----- |
| Billing/Interest/Bad Debt PPA | (\$7) | (\$27) | \$28 | \$89 | (\$20) |

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CONTRIBUTION FACTOR TREND

Finance :

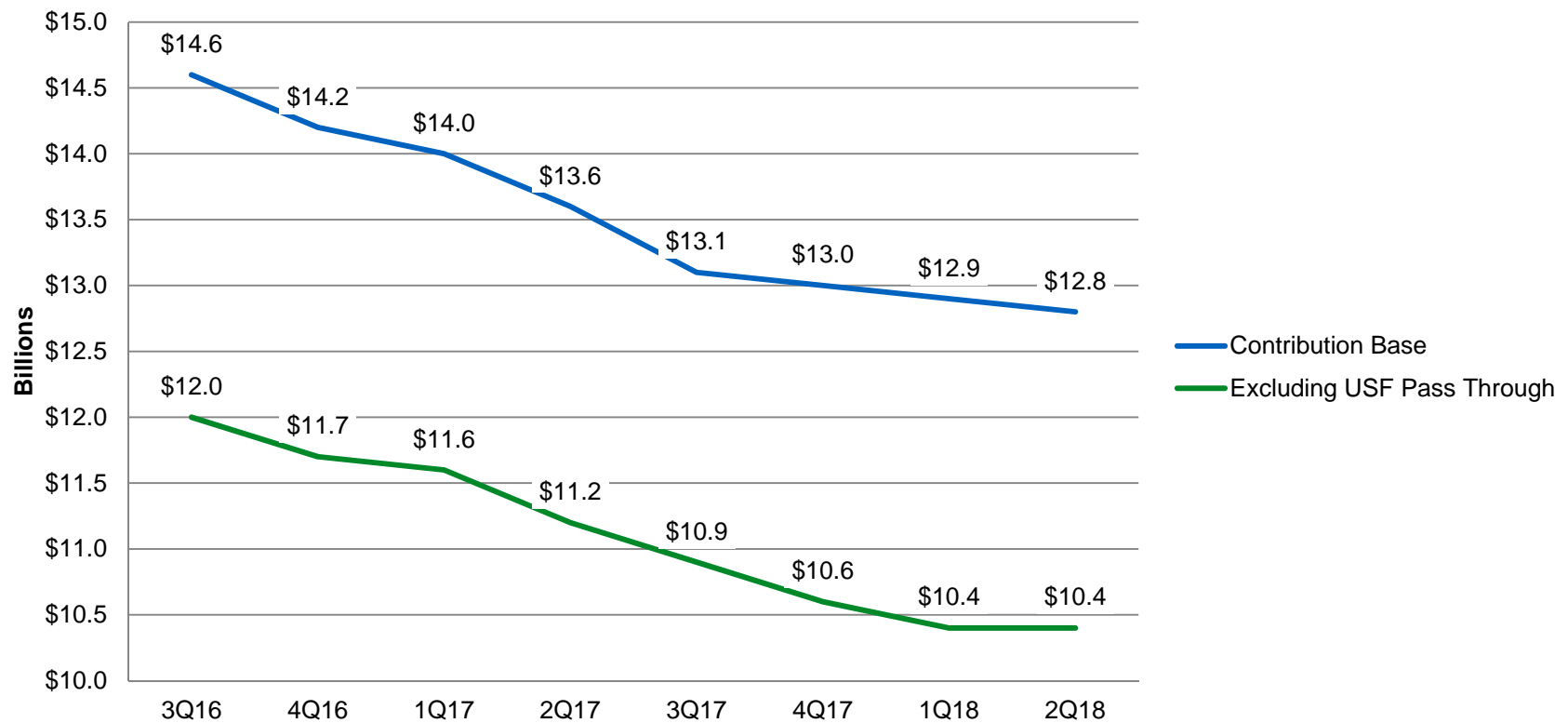
- The green line reflects what the contribution factor would have been after excluding the impact of prior period adjustments (PPA)
- The yellow line applies the PPA back to the related quarter to reflect actual results.



CONTRIBUTION BASE TREND

Finance :

- The green line excludes revenue collected from USF pass-through charges, which are ultimately eliminated by way of the FCC circularity factor.
- The 2Q18 contribution base is \$66 million lower than 1Q18.



CONTRIBUTION FACTOR RULE OF THUMB

A \$9.2 million change in USF demand or \$59.8 million change in the USF contribution base will cause the quarterly contribution factor to change by approximately 0.1%.

in millions

| Quarter | Contribution Base | Program Demand | Contribution Factor | Rule of Thumb | |
|---------|-------------------|----------------|---------------------|---------------|---------|
| | | | | Base | Demand |
| 2Q08 | \$18,978 | \$1,907 | 11.3% | \$151.26 | \$15.20 |
| 2Q13 | \$16,152 | \$2,140 | 15.5% | \$90.85 | \$12.04 |
| 2Q18 | \$12,806 | \$1,968 | 18.4% | \$59.80 | \$9.15 |

Demand Estimate Comparison
(as of 2/20/2018)

| <i>(in millions)</i> | 2017 Q3 | | 2017 Q4 | | 2018 Q1 | | 2018 Q2 | |
|--------------------------------------|-----------|------------------|-----------|------------------|-----------|------------------|-----------|------------------|
| Demand Summary | | | | | | | | |
| High Cost | \$ | 1,115.25 | \$ | 1,146.07 | \$ | 1,117.66 | \$ | 1,056.25 |
| Low Income | | 284.00 | | 289.84 | | 323.59 | | 306.78 |
| Rural Health Care | | (1.23) | | 107.80 | | 95.11 | | 98.86 |
| Schools and Libraries | | 498.09 | | 499.47 | | 545.11 | | 506.21 |
| Demand | \$ | 1,896.11 | \$ | 2,043.18 | \$ | 2,081.47 | \$ | 1,968.10 |
| Contribution Base | \$ | 13,110.46 | \$ | 13,025.59 | \$ | 12,871.99 | \$ | 12,805.68 |
| Contribution Factor (rounded) | | 17.1% | | 18.8% | | 19.5% | | 18.4% |

High Cost Support Mechanism

| | | | | | | | | |
|--|-----------|-----------------|-----------|-----------------|-----------|-----------------|-----------|-----------------|
| High Cost Loop Support | \$ | 125.65 | \$ | 125.65 | \$ | 125.66 | \$ | 125.65 |
| Connect America Broadband Loop Support | | 186.12 | | 186.12 | | 178.02 | | 178.02 |
| Frozen Price Cap Carrier Support | | 36.73 | | 36.75 | | 36.74 | | 36.74 |
| Frozen Competitive ETC Support | | 124.60 | | 123.80 | | 122.64 | | 122.19 |
| Alternative Connect America Cost Model | | 138.95 | | 138.95 | | 137.11 | | 137.11 |
| CAF - Intercarrier Compensation Support | | 106.84 | | 102.83 | | 102.75 | | 102.82 |
| CAF Reserve Pursuant to FCC 11-161 | | (21.36) | | (12.79) | | (67.09) | | (67.09) |
| CAF Phase II | | 394.56 | | 390.78 | | 390.78 | | 390.78 |
| Rural Broadband Experiments | | 0.83 | | 0.83 | | 0.83 | | 0.83 |
| Alaska Plan Support | | 32.08 | | 32.08 | | 32.08 | | 32.08 |
| <i>Subtotal High Cost Support Mechanism Program Demand</i> | <i>\$</i> | <i>1,125.00</i> | <i>\$</i> | <i>1,125.00</i> | <i>\$</i> | <i>1,059.52</i> | <i>\$</i> | <i>1,059.13</i> |
| HC Administrative Expenses - Direct | | 2.52 | | 3.47 | | 3.00 | | 3.23 |
| HC Administrative Expenses - Common | | 7.06 | | 6.67 | | 9.55 | | 8.57 |
| Interest Income | | (4.26) | | (4.74) | | (4.48) | | (2.19) |
| Prior Period True-ups | | (15.07) | | 15.67 | | 50.07 | | (12.49) |
| Total Contributions | \$ | 1,115.25 | \$ | 1,146.07 | \$ | 1,117.66 | \$ | 1,056.25 |

Demand Estimate Comparison
(as of 2/20/2018)

(in millions)

| | 2017 Q3 | 2017 Q4 | 2018 Q1 | 2018 Q2 |
|--|------------------|------------------|------------------|------------------|
| Low Income Support Mechanism | | | | |
| Lifeline Assistance | 330.26 | 319.85 | 313.04 | 308.23 |
| Link-Up | 0.09 | 0.04 | 0.06 | 0.03 |
| <i>Subtotal Low Income Support Mechanism Program Demand</i> | <i>\$ 330.35</i> | <i>\$ 319.89</i> | <i>\$ 313.10</i> | <i>\$ 308.26</i> |
| PP - Lifeline Distribution True Up | (49.76) | (50.02) | (16.11) | (10.33) |
| LI Administrative Expenses - Direct | 5.29 | 5.12 | 9.73 | 7.34 |
| LI Administrative Expenses - Common | 3.20 | 9.57 | 5.18 | 4.66 |
| Interest Income | (0.17) | (0.28) | (0.27) | (0.10) |
| Prior Period True-ups | (4.91) | 5.56 | 11.96 | (3.05) |
| Total Contributions | \$ 284.00 | \$ 289.84 | \$ 323.59 | \$ 306.78 |
| Rural Health Care Support Mechanism | | | | |
| Rural Health Care Support | 96.83 | 104.81 | 96.66 | 96.89 |
| <i>Subtotal Rural Health Care Support Mechanism Program Demand</i> | <i>\$ 96.83</i> | <i>\$ 104.81</i> | <i>\$ 96.66</i> | <i>\$ 96.89</i> |
| PP - Rural Health Care | (99.28) | 0.00 | 0.00 | 0.00 |
| RHC Administrative Expenses - Direct | 1.93 | 1.70 | 1.92 | 1.84 |
| RHC Administrative Expenses - Common | 1.24 | 0.77 | 1.42 | 1.27 |
| Interest Income | (0.85) | (1.17) | (1.02) | (0.53) |
| Prior Period True-Ups | (1.10) | 1.69 | (3.87) | (0.61) |
| Total Contributions | \$ (1.23) | \$ 107.80 | \$ 95.11 | \$ 98.86 |

Demand Estimate Comparison
(as of 2/20/2018)

(in millions)

| | 2017 Q3 | 2017 Q4 | 2018 Q1 | 2018 Q2 |
|---|-------------------|------------------|------------------|-------------------|
| Schools and Libraries Support Mechanism | | | | |
| Schools and Libraries Support | 786.63 | 786.63 | 786.63 | 786.63 |
| Schools and Libraries Roll Over | (300.06) | (300.06) | (300.06) | (300.06) |
| <i>Subtotal School and Libraries Support Mechanism Program Demand</i> | \$ 486.57 | \$ 486.57 | \$ 486.57 | \$ 486.57 |
| SL Administrative Expenses - Direct | 17.00 | 16.65 | 18.22 | 17.66 |
| SL Administrative Expenses - Common | 10.72 | 0.81 | 11.84 | 10.63 |
| Interest Income | (10.12) | (10.33) | (9.56) | (4.80) |
| Prior Period True-Ups | (6.08) | 5.77 | 38.04 | (3.85) |
| Total Contributions | \$ 498.09 | \$ 499.47 | \$ 545.11 | \$ 506.21 |
| Prior Period Adjustments | | | | |
| Billings | \$ 1.05 | \$ 18.27 | \$ (11.80) | \$ 4.08 |
| Billing Adjustments | \$ (13.00) | \$ 31.00 | \$ 123.00 | \$ (5.00) |
| Bad Debt Expense | \$ (13.55) | \$ (19.12) | \$ (20.71) | \$ (18.65) |
| Interest | \$ (1.65) | \$ (1.46) | \$ (1.75) | \$ (0.43) |
| PPA - Billing/Interest/Bad Debt | \$ (27.15) | \$ 28.69 | \$ 88.74 | \$ (20.00) |
| PPA - Administrative Adjustment | \$ - | \$ - | \$ 7.46 | \$ - |
| Prior Period Adjustment | \$ (27.16) | \$ 28.69 | \$ 96.20 | \$ (20.00) |