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Universal Service Administrative Company

Financial Statements as of and for the Years ended December 31, 2022 and 2021 and Report of Independent Auditors in Accordance with *Government Auditing Standards*

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
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Report of Independent Auditors

To the Board of Directors of Universal Service Administrative Company

Report on Financial Statements

Opinion

We have audited the accompanying financial statements of Universal Service Administrative Company (the "Company"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Company has restated its 2022 financial statements to correct errors. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued a report dated June 20, 2023 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2022. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance and other matters.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Washington, District of Columbia

June 20, 2023, except for the effects of the restatement discussed in Note 2 to the financial statements and the matter discussed in the second paragraph of Note 2, as to which the date is October 11, 2024

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022 AND 2021
(In thousands)

	2022 (As Restated)	2021
ASSETS		
CURRENT ASSETS:		
Cash	$ 12,137	$ 9,289
Receivable from Federal USF	10,652	11,090
Receivable from Appropriation Programs	37,532	23,285
Prepaid expenses and other current assets	13,985	20,498
Assets held for the Federal USF (Note 3)	6,848,348	7,202,361
Total Current Assets	6,922,654	7,266,523
Fixed assets, net, held for Federal USF (Note 4)	14,121	13,335
Right of use asset	36,531	17,001
Other postemployment benefits receivable from USF	30,906	-
Other assets	1,746	2,650
TOTAL ASSETS	$ 7,005,958	$ 7,299,509
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 61,244	$ 50,741
Advance from the Federal USF	13,024	13,024
Deferred revenue	1,619	-
Lease liability	5,245	5,509
Liabilities related to assets held for the Federal USF (Note 3)	6,848,348	7,202,361
Total Current Liabilities	6,929,480	7,271,635
Long term lease liability	45,572	27,874
Long term other postemployment benefits liability	30,906	-
Commitments and contingencies (Note 6)	-	-
TOTAL LIABILITIES	7,005,958	7,299,509
NET ASSETS		
Net assets without restrictions	-	-
TOT AL NET ASSETS	-	-
TOTAL LIABILITIES AND NET ASSETS	$ 7,005,958	$ 7,299,509

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

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022 AND 2021
(In thousands)

	2022 (As Restated)	2021
OPERATING:		
Revenue		
USF revenue	$ 224,740	$ 200,916
Other postemployment benefits USF revenue	715	-
Appropriations revenue	103,427	50,651
Total Revenue	328,882	251,567
Expenses		
Contractual expenses	123,759	61,510
Personnel and related expenses	94,520	96,763
General and administrative expenses	104,292	84,228
Depreciation and amortization	6,311	9,066
Total Operating Expenses	328,882	251,567
NON-OPERATING:		
Revenue		
Non-operating revenue	30,191	-
Total Non-Operating Revenue	30,191	-
Expenses		
Other components of net periodic pension cost	48	-
Pension related changes other than net periodic pension cost	30,143	-
Total Non-Operating Expenses	30,191	-
CHANGE IN NET ASSETS	-	-
NET ASSETS - Beginning of year	-	-
NET ASSESTS - End of year	$ -	$ -

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

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In thousands)

	2022 (As Restated)	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from the federal USF and other parties	$ 315,958	$ 213,413
Cash paid for operating expenses and employees	(306,278)	(207,325)
Cash received from interest	19	6
Net cash provided by operating activities	9,699	6,094
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(6,851)	(2,860)
INCREASE (DECREASE) IN CASH	2,848	3,234
CASH - Beginning of year	9,289	6,055
CASH - End of year	$ 12,137	$ 9,289
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Change in net assets	$ -	$ -
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	6,311	9,066
Amortization of lease right of use asset	1,845	1,659
Changes in operating assets and liabilities:		
(Increase) Decrease in prepaid expense and other assets	7,419	(4,964)
(Increase) Decrease in assets held for the Federal USF	354,013	(554,207)
(Increase) Decrease in receivable from the Federal USF	438	858
(Increase) Decrease in other postemployment benefits receivable from USF	(30,906)	-
(Increase) Decrease in receivable from appropriation programs	(14,247)	(23,285)
Increase (Decrease) in accounts payable and accrued liabilities	10,254	31,154
Increase (Decrease) in advance from the Federal USF	-	(5,000)
Increase (Decrease) in lease liability	(3,940)	(3,394)
Increase (Decrease) in other postemployment benefits liability	30,906	-
Increase (Decrease) in deferred revenue	1,619	-
Increase (Decrease) in liabilities related to assets held for the Federal USF	(354,013)	554,207
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 9,699	$ 6,094
Supplemental disclosure of non-cash information:		
Capital expenditures included in accounts payable	$ 945	$ 698
Increase to right of use asset and lease liability due to amended lease	$ 21,374	$ -

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

1. ORGANIZATION AND BASIS OF PRESENTATION

The Universal Service Administrative Company ("USAC" or the "Company") was incorporated, effective September 17, 1997, as a not-for-profit, independent, wholly-owned subsidiary of the National Exchange Carrier Association, Inc. ("NECA"), and appointed by the Federal Communications Commission ("FCC") to administer the Universal Service Fund ("USF") and the universal service support mechanisms. USAC's Board of Directors consists of directors representing a cross-section of stakeholders in the USF and the universal support mechanisms. Pursuant to 47 C.F.R. § 54.703(a), USAC's Board of Directors is separate from NECA's Board of Directors and NECA is prohibited from participating in USAC's functions.

The FCC, in its Report and Order in CC Docket Nos. 96-45 and 97-21 ("Universal Service Order") released May 8, 1997 and November 20, 1998, respectively, determined that USAC should serve as the permanent administrator of the Connected Care Pilot, High Cost, Lifeline, Rural Health Care, and Schools and Libraries Universal Service Support Mechanisms, collectively referred to herein as the "Programs," established pursuant to Section 254 of the Communications Act of 1934, as amended.

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

The functions of USAC as the administrator of the USF also include, but are not limited to, development of applications and associated instructions as needed for the Programs, administering the application process consistent with applicable FCC rules and related operational infrastructure for such processes, performing outreach and public education functions, performing audits of contributing telecommunications carriers reporting information to USAC as required under 47 C.F.R. § 54.707(a), performing audits of telecommunications carriers receiving Connected Care Pilot, High Cost, and/or Lifeline Program benefits, and schools, libraries, and rural health care providers and beneficiaries receiving Schools and Libraries or Rural Health Care Program benefits, and development and implementation of other functions unique to the Programs.

Funds collected by USAC from telecommunications carriers required to contribute to the USF pursuant to 47 U.S.C. § 254 and 47 C.F.R. § 54.706 are restricted as to their intended use related to the Programs described above. The cash and other financial assets USAC holds and administers for the benefit of the USF are reported at fair value in the Statements of Financial Position as assets held for the Federal USF, with an equal amount recorded as liabilities related to assets held for the Federal USF. Activities related to the USF are not presented in USAC's Statements of Activities or Statements of Cash Flows.

NECA, a related party to USAC, performs data collection functions for the High Cost Program pursuant to FCC rules and bills USAC for the associated costs. NECA is compensated by USAC in accordance with NECA's Cost Accounting and Procedures Manual. For the years ended December 31, 2022 and 2021, the expense recognized for services rendered by NECA was $357,627 and $392,003, respectively. These expenses are included in contractual expenses in the accompanying Statements of Activities. At December 31, 2022 and 2021, amounts due to NECA were $34,783 and $37,920, respectively.

The Consolidated Appropriations Act of 2021 and American Rescue Plan Act of 2021 became law and established three Appropriation Programs – Emergency Broadband Benefit Program ("EBBP"), COVID-19 Telehealth ("Telehealth"), and Emergency Connectivity Fund ("ECF"), collectively referred to herein as the "Appropriation Programs." The FCC designated USAC to administer the Appropriation Programs. The functions of USAC as the administrator of the Appropriation Programs is similar to the USF. The

Appropriation Programs were developed to deliver telecommunications service and devices to those across the nation to help stay connected during the COVID-19 pandemic, including healthcare facilities offering telehealth services, schools and libraries, and low-income households. On November 15, 2021, Congress created the Affordable Connectivity Program ("ACP"), a long-term program which replaced the EBBP.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting, in conformity with the accounting principles generally accepted in the United States of America (GAAP). As a result of revenues equaling expenses each accounting period, USAC has no net assets with or without restrictions.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, Financial Instruments – Credit Losses (Topic 326), which improves financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. ASU 2016-13 will be effective for the company beginning January 1, 2023. Early adoption is permitted. The adoption of this standard is not expected to have a significant impact on the Company's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Restatement of Prior Period Amounts – In the first quarter of 2024, the Company identified misstatements previously reported in total assets and liabilities and other postemployment benefits ("OPEB") expense that should have been recorded in 2022. The misstatements related to the treatment under U.S. GAAP of other postretirement benefits which are approved and communicated to employees prior to the effective date of the plan. In accordance with ASC 715, the accounting for the plan should have been completed when the plan was approved and the benefits were communicated to USAC employees. The Company determined that these adjustments were material to the previously issued financial statements, and as a result, the Company restated the Statements of Financial Position, Statements of Activities, and Statements of Cash Flows for the affected periods. The restatement resulted in the following changes to the results for the annual period:

	As of December 31, 2022		
(in thousands)	As Previously Reported	Adjustments	As Restated
ASSETS			
OPEB receivable from USF	$ -	$ 30,906	$ 30,906
Total Assets	6,975,052	30,906	7,005,958
LIABILITIES AND NET ASSETS			
Long term other postemployment benefits liability	$ -	$ 30,906	$ 30,906
Total Liabilities	6,975,052	30,906	7,005,958
Total Liabilities and Net Assets	$ 6,975,052	$ 30,906	$ 7,005,958

(in thousands)	Twelve Months Ended December 31, 2022		
	As Previously Reported	Adjustments	As Restated
OPERATING:			
Revenue			
OPEB USF revenue	$ -	$ 715	$ 715
Total Revenue	$ 328,167	$ 715	$ 328,882
Expenses			
Personnel and related expenses	$ 93,805	$ 715	$ 94,520
Total Operating Expenses	$ 328,167	$ 715	$ 328,882
NON-OPERATING:			
Revenue			
Non-operating revenue	$ -	$ 30,191	$ 30,191
Total Non-Operating Revenue	$ -	$ 30,191	$ 30,191
Expenses			
Other components of net periodic pension cost	$ -	$ 48	$ 48
Pension related changes other than net periodic pension cost	-	30,143	30,143
Total Non-Operating Expenses	$ -	$ 30,191	$ 30,191

(in thousands)	As of December 31, 2022		
	As Previously Reported	Adjustments	As Restated
Changes in operating assets and liabilities:			
(Increase) Decrease in other postemployment benefits receivable from USF	$ -	$ (30,906)	$ (30,906)
Increase (Decrease) in other postemployment benefits liability	-	30,906	30,906
Net Cash Provided by Operating Activities	$ 9,699	$ -	$ 9,699

Separate from the misstatement discussed immediately above, the Company has also corrected a quantitative disclosure exception within Note 3 by decreasing Accounts receivable and Allowance for doubtful accounts as of 12/31/2022 by $3,260 thousand. This quantitative disclosure exception had no impact on the USAC Statements of Financial Position, Statements of Activities, or Statements of Cash Flows.

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

Other Postemployment Benefits – OPEB refers to benefits, other than pensions, that are paid upon retirement. These employees become eligible for benefits after meeting age and service requirements.

The Company recognizes the overfunded or underfunded status of a single employer defined benefit postretirement plan as an asset or liability in its Statements of Financial Position and recognize changes in that funded status in the year in which the changes occur through its Statements of Activities. There is no net assets created, therefore, the Company records a debit to long term receivable and a credit to revenue. The Company recognize the service cost component of the OPEB plan as operating expense and operating revenue. The Company's revenue will always offset expenses as it will be funded by the USF. The prior service cost associated with the initial obligation, as well as the future interest cost, amortization of prior service, and unrecognized net loss/gain components of the OPEB plan, are recognized by the Company as non-operating expense and non-operating revenue.

Fixed Assets – Fixed assets consist of office furniture, office equipment, computer hardware, internal use computer software and leasehold improvements. These assets are carried at cost, net of accumulated depreciation and amortization. If an asset acquired has a cost exceeding $3,500 and a useful life exceeding one year, it is capitalized. Bulk purchases made in a single transaction are capitalized when a quantity of similar items individually cost $500 or more and less than $3,500 and where the total acquisition cost is greater than $18,000. Capitalizable bulk purchase items include furniture and fixtures and exclude personal computers. Depreciation of office furniture and equipment is calculated on a straight-line basis over the seven-year estimated useful lives of those assets. Depreciation and amortization of hardware and software are calculated on a straight-line basis over the three-year estimated lives of those assets. Amortization of leasehold improvements is calculated on a straight-line basis over the shorter of the remaining period of the respective leases or estimated useful lives of the improvements. Maintenance and repairs are expensed to operations as incurred.

Projects in progress consist primarily of development costs of internal use software. USAC capitalizes costs of software developed or obtained for internal use once the preliminary project stage has been completed, management commits to funding the project and it is probable that the project will be completed, and the software will be used to perform the function intended.

Receivable from the Federal USF – USAC bills the USF on the basis of net cash disbursements. Collections against the receivable are expected to be received in full from the USF and therefore no allowance has been recorded associated with these receivables.

Advance from the Federal USF – Represents cash advanced by the USF that allows USAC to make operating disbursements without placing USAC in a negative cash position. The amount is subject to adjustment to account for expected increases or decreases in cash-flow requirements.

Receivable from the Appropriation Programs – USAC bills the FCC on a monthly basis for disbursements on four programs – EBBP, ACP, Telehealth, and ECF. Collections against the receivable are expected to be received in full from the FCC and therefore no allowance has been recorded associated with these receivables.

Other Postemployment Benefits Receivable from USF – USAC bills the USF upon payments to insurance carriers for retired employees. This balance was established associated with the OPEB's initial establishment as all expenses incurred by USAC will be funded by the USF. Collections against the receivable are expected to be received in full from the USF and therefore no allowance has been recorded associated with these receivables.

Deferred Revenue – Represents the portion of revenues billed and/or collected through the Receivable from the Federal USF process where the corresponding expense is recognized on the accrual basis and lags behind the cash disbursement used to bill the USF and record revenue. Deferred revenue is typically generated by capital or prepaid disbursement in excess of year end accruals. In 2021, year end accruals exceeded the capital and prepaid disbursements resulting in assets of $10.7 million which is included in Prepaid expenses and other current assets.

Prepaid Expenses and Other Current Assets – Represents prepaid expenses and other current assets, including the portion of revenues billed and/or collected through the Receivable from the Federal USF process where the corresponding expense is recognized on the accrual basis and lags behind the cash disbursement used to bill the USF and record revenue.

Revenue – The services provided by USAC, as the administrator of the USF and Appropriations, are a stand-ready obligation that meet the definition of the series guidance under ASC 606-10-25-15 *Revenue from contracts with customers* and are therefore accounted for as a single performance obligation. Revenues are recognized as services are rendered and are equal to the cost of providing administrative support to the USF, Appropriation Programs, and the Programs as well as to other FCC fund administrators. Such costs are paid by USF and by the other FCC fund administrators to USAC. The other FCC fund administrators provide administrative support for the Telecommunications Relay Services (“TRS”), North American Numbering Plan (“NANP”), and Local Number Portability (“LNP”) programs. USAC invoices these administrators for direct and indirect charges it incurs each month for the data collection and management functions on their behalf.

Other Postemployment Benefits USF Revenue – Represents revenue associated with the OPEB’s service cost component as all expenses incurred by USAC associated with the OPEB plan will be funded by the USF. Such costs are paid by USF upon payments to insurance carriers for retired employees.

Non-Operating Revenue – Represents revenue associated with the OPEB’s initial establishment, including the prior service cost associated with the initial obligation, as well as the future interest cost, unrecognized net loss/gain, and amortization of prior service cost, as all expenses incurred by USAC associated with the OPEB plan will be funded by the USF.

Income Taxes – Income taxes are accounted for under the asset and liability method of accounting. Deferred income taxes are provided on the liability method, whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences between the amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax law and rates on the date of enactment.

USAC has not taken any uncertain tax positions that require adjustment to the consolidated financial statements. With few exceptions, USAC is subject to income tax examinations by US federal, state, and local authorities for tax years 2013 and after.

Functional Allocation of Expenses – Costs incurred by USAC are related to the administration of the USF and are classified as program activities. Other costs incurred by USAC are related to the administration of the Appropriation Programs and are classified as congressional program activities. USAC’s financial statements report certain expense categories that are attributable to more than one program therefore USAC utilizes specific general ledger accounts to allocate these expenses to the different programs. Expenses related to these programs are as follows:

Functional expenses related to the administration of the USF for the year ended December 31, 2022:

	Program Services					
(in thousands)	High Cost	Lifeline	Rural Health Care	Schools and Libraries	Connected Care Pilot	Total
Contractual expenses	$ 1,907	$ 26,500	$ 842	$ 18,978	$ -	$ 48,227
Personnel and related expenses	$ 9,155	$ 8,577	$ 7,490	$ 9,548	$ -	$ 34,770
General and administrative expenses	$ 11,513	$ 7,609	$ 6,663	$ 7,827	$ -	$ 33,612
Depreciation and amortization	$ 686	$ 2,293	$ 462	$ 455	$ 44	$ 3,940
Indirect/Allocated expense	$ 38,552	$ 23,761	$ 10,711	$ 31,629	$ 251	$ 104,904
Total Operating Expenses Associated with USF	$ 23,261	$ 44,979	$ 15,457	$ 36,808	$ 44	$ 225,453

Functional expenses related to the administration of the USF for the year ended December 31, 2021:

(in thousands)	Program Services					
	High Cost	Lifeline	Rural Health Care	Schools and Libraries	Connected Care Pilot	Total
Contractual expenses	$ 950	$ 16,144	$ 267	$ 18,962	$ 6	$ 36,329
Personnel and related expenses	$ 9,374	$ 9,291	$ 7,497	$ 10,043	$ -	$ 36,205
General and administrative expenses	$ 5,177	$ 5,108	$ 6,360	$ 6,823	$ 75	$ 23,543
Depreciation and amortization	$ 649	$ 5,610	$ 23	$ 282	$ 40	$ 6,604
Indirect/Allocated expense	$ 36,946	$ 21,897	$ 8,713	$ 30,620	$ 59	$ 98,235
Total Operating Expenses Associated with USF	$ 16,150	$ 36,153	$ 14,147	$ 36,110	$ 121	$ 200,916

Functional expenses related to the administration of the Appropriation Programs for the year ended December 31, 2022:

	Program Services			
	Affordable Connectivity Program	COVID-19 Telehealth	Emergency Connectivity Fund	Total
Contractual expenses	$ 69,661	$ -	$ 5,020	$ 74,681
Personnel and related expenses	$ 3,626	$ 39	$ 387	$ 4,052
General and administrative expenses	$ 10,257	$ 254	$ 14,184	$ 24,696
Total Operating Expenses Associated with Appropriation	$ 83,544	$ 293	$ 19,591	$ 103,429

Functional expenses related to the administration of the Appropriation Programs for the year ended December 31, 2021:

	Program Services			
	Affordable Connectivity Program	COVID-19 Telehealth	Emergency Connectivity Fund	Total
Contractual expenses	$ 20,778	$ -	$ 4,394	$ 25,172
Personnel and related expenses	$ 2,409	$ 347	$ 1,311	$ 4,067
General and administrative expenses	$ 8,469	$ 5,680	$ 7,263	$ 21,412
Total Operating Expenses Associated with Appropriation	$ 31,656	$ 6,027	$ 12,968	$ 50,651

3. ACTIVITIES RELATED TO THE FEDERAL USF

As discussed in Note 1, the cash and other financial assets of the USF, which USAC administers and acts as an intermediary for, are reported at fair value in the Statements of Financial Position as assets held for the Federal USF, with an equal amount recorded as liabilities related to assets held for the Federal USF. The summary of assets applicable to the USF included below provides additional detail with respect to these amounts.

(in thousands)	December 31 2022	December 31 2021
ASSETS		
CURRENT ASSESTS:		
Cash and cash equivalents	$ 6,170,919	$ 6,439,839
Accounts receivable	1,202,779	1,305,383
Allowance for doubtful accounts	(525,350)	(542,862)
Total Assets Held for Federal USF	$ 6,848,348	$ 7,202,361

Cash and Cash Equivalents – USAC, as the administrator of the USF, considers all highly liquid securities with an original maturity of three months or less as of the financial statement date to be cash equivalents. These cash balances are held by the U.S. Treasury on behalf of the USF.

Accounts Receivable and Allowance for Doubtful Accounts – USAC, as the administrator of the USF, recognizes accounts receivable arising from amounts billed to contributors and the recovery of funds from service providers and beneficiaries, which remain unpaid. Accounts receivable are recorded at invoiced amounts and generally do not bear interest. Based on the Debt Collection Improvement Act ("DCIA"), all receivables over 90-days delinquent are transferred to the United States Treasury for collection, except for receivables where the debtor has appealed the validity of the amount owed or the debtor has sought protection under Chapter 7 or 11 of the United States Bankruptcy Code. The DCIA receivable balances transferred to the Treasury remain as USF receivables. All receipts of DCIA transferred receivables are held by USAC for the benefit of the USF.

Gross receivables are reduced to net realizable value by the allowance for doubtful accounts, which reflects the Company's estimate of exposure to risk of nonpayment of billed balances, determined principally on the basis of its historical collection experience. The allowance includes reserves for amounts on appeal, identified bankruptcies, identified inactive contributors, delinquent amounts that are referred to the United States Treasury for collection, and other items. Management periodically reviews such estimates and management's assessment of recoverability may change based on actual results. Accounts receivable write-offs are periodically submitted by USAC to the FCC for approval.

4. FIXED ASSETS

Fixed Assets as of December 31, 2022 and 2021 are as follows:

	December 31	
(in thousands)	2022	2021
FIXED ASSESTS:		
Office furniture and equipment	$ 2,651	$ 2,651
Computer hardware	9,105	12,250
Computer software	93,694	91,394
Leasehold improvements	8,839	8,839
Projects in progress	1,958	588
Total Fixed Assets	116,247	115,721
Less accumulated depreciation	(102,126)	(102,387)
	$ 14,121	$ 13,335

Depreciation and amortization expense was $6.3 million and $9.1 million for the years ended December 31, 2022 and 2021, respectively.

5. INCOME TAXES

USAC is a not-for-profit corporation subject to income taxes, including those that arise from the permanent and temporary differences between financial and tax accounting, such as those related to meals and entertainment expense, compensated absences, depreciation, and certain lease incentives.

For the twelve months ended December 31, 2022, USAC had no federal or state income tax expenses. For the twelve months ended December 31, 2021, USAC recorded $0.7 million and $0.2 million for federal and state income tax expense, respectively. Income taxes are included as a component of general and administrative expenses.

As of December 31, 2022, USAC has recorded deferred tax assets of $3.4 million, which are fully offset by a valuation allowance. FASB Accounting Standards Codification Topic ASC 740, Income Taxes, requires that a valuation allowance be established for deferred tax assets if it is more likely than not that the deferred tax asset will not be realized. Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated on a more likely than not basis to permit use of its existing deferred tax assets. On the basis of this evaluation, USAC has concluded that it is more likely than not its deferred tax assets will not be realized, and a full valuation allowance has been established.

6. COMMITMENTS AND CONTINGENCIES

Fixed Contract Commitments

Program Management Agreement – A private consulting services company provides to USAC contracted program operations services for the Schools and Libraries Program. In December 2020, USAC exercised the second renewal option for the 12 month period ending December 31, 2021. In November 2021, USAC exercised the third renewal options for the 12 month period ending December 31, 2022. The contractual payments were $5.5 million and $5.5 million for the years ended December 31, 2022 and 2021, respectively. In addition, USAC paid variable fees under the agreement of $8.1 million and $8.4 million for the years ended December 31, 2022 and 2021, respectively. In December 2022, USAC exercised the fourth renewal options for the 12 month period ending December 31, 2023. USAC expects to pay contractual and variable fees of $5.5 million and $10.45 million, respectively, for the year ended December 31, 2023.

Customer Support Center & CRM Agreement – A large international professional services firm provides a customer support center for Schools and Libraries, Rural Healthcare, and High Cost Program, as well as the multi-staged implementation of a FedRAMP authorized centralized customer service CRM across the enterprise. In December 2021, USAC entered into a contract for a twelve month period ending December 31, 2022 with four 1 year options. In December 2022, USAC exercised the first renewal option for the 13 month period ending November 30, 2023, and amended the base year to end October 31, 2022. The contractual and variable fees were $3.5 million and $2.0 million, respectively, for the year ended December 31, 2022. USAC expects to pay variable fees of $4.7 million for the year ended December 31, 2023.

ECF Agreement – A large international professional services firm provides to USAC contracted Appropriation Program operations for the ECF program. In May 2021, USAC entered into a contract for an eighteen month period ending November 30, 2022 with a 1 year option. In October 2022, USAC exercised the renewal option for the 13 month period ending November 30, 2023 and amended the base year to end October 31, 2022. The contractual payments were $13.2 million and $1.9 million for the years ended December 31, 2022 and 2021, respectively. In addition, USAC paid variable fees under the agreement of $0.4 million and $3.4 million for the years ended December 31, 2022 and 2021, respectively. USAC expects to pay fixed fees of $12.8 million for the year ended December 31, 2023.

Lifeline & ACP Call Center Agreement – A large professional services firm provides call center services to USAC for the Lifeline Program and the ACP Program. In December 2022, USAC entered into a contract for a twelve month period ending December 31, 2023 with four (4) one-year renewal options. USAC expects to pay contractual and variable fees of $25.8 million and $8.2 million, respectively, for the year ended December 31, 2023.

Legal Disputes

USAC is involved in various legal proceedings and claims incidental to the normal conduct of its business. During 2022, USAC was not involved in any material legal proceedings and did not have a material claim asserted by or against USAC. USAC is not a party to any other lawsuit or proceeding that, in the opinion of management, is reasonably possible to have a material adverse effect on its financial position, results of activities, or cash flows.

7. LEASES

USAC determines if an arrangement is a lease at inception. Operating leases are included in right-of-use assets, lease liabilities and long-term lease liabilities on the Statement of Financial Position. Leases are recognized based on the present value, net of the future minimum lease payments over the lease term using the organization's incremental borrowing rate based on the information available at commencement. The ROU asset is derived from the lease liability and also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term for operating leases.

Prior to the third amendment signed in December 2022, USAC leased its current office space under a thirteen year operating lease agreement expiring in 2028. The lease commenced in July 2016 and included a full abatement of rent and operating costs for the first 22 months of the lease term. The initial lease agreement provided USAC with a tenant improvement allowance ("TIA") in the amount of $10.2 million for leasehold improvements. An amendment to the lease was signed in December 2016 which increased the total TIA to $11.7 million.

In December 2022, a third amendment to the lease was signed which reduced the office space, extended the lease agreement to expiring in 2038, and increased the total TIA to $13.8 million. The office space reduction is to be completed in two phases. The first phase of the office reduction will occur in April 2023 and the final phase of the office reduction will occur in May 2024. The third amendment resulted in a lease modification and an increase in the existing right-of-use asset and lease liability of $21.4 million. As of December 31, 2022, the Company recognized right-of-use assets of $36.5 million and lease liabilities of $50.8 million.

At December 31, 2022, the future minimum rental and operating cost payments under the terms of the lease are as follows (in thousands):

(in thousands)

2023	$	5,199
2024		2,494
2025		4,297
2026		4,404
2027 and beyond		59,465
Total future minimum payments		75,858
Less: Present value discount		25,041
Present value of net minimum lease payments	$	50,817

USAC uses the incremental borrowing rate based on the information available at lease commencement date in determining the present value of lease payments. The weighted average discount rate used by USAC as of December 31, 2022 is 5.0%.

Rent expenses under the operating lease were $3.4 million and $3.4 million for the years ended December 31, 2022 and 2021, respectively.

8. RETIREMENT PLANS

USAC has a 401(k) Retirement Savings Plan covering all USAC employees. The plan is both contributory and noncontributory and all contributions are subject to certain limitations as prescribed by the plan document and government regulations. Employees are immediately vested in the employer contribution, which is funded on a current basis. Employer contributions charged to operations were $7.4 million and $7.6 million for the twelve months ended December 31, 2022 and 2021 respectively.

9. OTHER POSTRETIREMENT BENEFITS

ASC 715-20 results from an initial phase of a comprehensive project to improve an employer's accounting for defined benefit pension and postretirement benefit plans. The postretirement benefit plan has no assets, therefore, the funded status is the December 31, 2022 accumulated postretirement benefit obligation ("APBO") of $30.9 million, a liability, is as follows (in thousands).

	As of December 31, 2022
Change in Accumulated Projected Benefit Obligation (APBO)	
APBO at end of prior year	$ -
Service cost	715
Interest cost	256
Amendments (OPEB Plan entry 10/28/2022)	26,486
Special termination	-
Curtailment	-
Employee contributions	-
Actuarial loss (gain)	3,448
Medicare Part D Drug Subsidy	-
Benefits paid	-
APBO at end of year	$ 30,906

The prior service cost and interest cost was $0.7 million and $0.3 million, respectively, for the year ended December 31, 2022. The actuarial loss was $3.4 million for the year ended December 31, 2022. Refer to Note 2 for the classification of these costs within the Company's Statement of Activities.

The year ended December 31, 2022 was the first year the Company's postretirement benefits actuarial valuation was performed, with a Plan Entry announcement date of October 28, 2022. The Company measured the Plan Entry liability based on the discount rate as of 10/31/2022. The discount rate used for the determination of the December 31, 2022 APBO is 5.52% and was determined based on the FTSE Pension Curve as of December 31, 2022 and the Plan's APBO cash flows are as follows (in thousands).

Discount Rate		5.52%
FUNDED STATUS		
APBO as of October 28, 2022		
Active eligible	$	5,091
Active not eligible		21,395
Retirees		-
Total		26,486
APBO	$	(26,486)
Plan assets		-
Funded status	$	(26,486)
Unrecognized transition obligation (asset)		-
Unrecognized prior service cost		26,486
Unrecognized net loss (gain)		-
Accumulated contributions in excess of net periodic benefit cost	$	-
Expected benefits paid	$	-

NET PERIODIC BENEFIT COST (EXPENSE): 10/28/2022 through 12/31/2022		
Service cost	$	715
Interest cost		256
Amortization of prior service cost		208
Recognized actuarial loss (gain)		-
Recognized transition obligation (asset)		-
Net periodic benefit cost	$	1,179

The annual healthcare trend rate assumption used for FYE 2022 is 7.25% (6.25% post Medicare) grading to an ultimate rate of 4.0% are as follows:.

Weighted Average Assumptions Used to Determine the Benefit Obligations	**As of December 31, 2022**
Discount rate	5.52%
Return on assets	N/A
Healthcare trend rate (Pre 65 Med, Post 65 Med, Rx)	7.25%/6.25%
Ultimate health care trend rate	4.00%
Year that the ultimate trend rate is reached	2036
Weighted Average Assumptions Used to Determine Net Periodic Benefit Cost	
Discount rate	5.52%
Return on Assets	N/A

The cumulative gains and losses in excess of 10% of the greater of the APBO are amortized over the expected average remaining future service of 24.2 years of the current active participants.

At December 31, 2022, the future expected benefit payments are as follows (in thousands):

2023	$ -
2024	98
2025	251
2026	372
2027	503
2028 and beyond	6,130

10. SUBSEQUENT EVENTS

USAC has performed an evaluation of subsequent events through October 11, 2024, which is the date the financial statements were available to be reissued.

On July 24, 2024, the United States Court of Appeals for the Fifth Circuit ruled that the current method of funding the USF program is unconstitutional as it relates to the contribution factor for the first quarter of 2022. Consumers' Research v. FCC, 109 F.4th 743 (5th Cir. 2024). The government has sought Supreme Court review of the decision. USAC is not a party to the legal proceeding and is unaware of any material adverse effect on the Company's statement of activities, cash flows or financial condition.

As of August 6, 2024, the Company terminated the other postemployment benefit plan. The current and retired participants were notified of this change in September 2024.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of Universal Service Administrative Company

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Universal Service Administrative Company (the "Company"), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and of cash flows for the year then ended, including the related notes (collectively referred to as the "financial statements"), and have issued our report thereon dated June 20, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item *2022-001* to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Company's Response to Findings

Government Auditing Standards requires us to perform limited procedures on the Company's response to the findings identified in our audit and described in the accompanying schedule of findings. The

Company's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP
Washington, District of Columbia

June 20, 2023, except for the effects of the restatement discussed in Note 2 to the financial statements and the matter discussed in the second paragraph of Note 2, as to which the date is October 11, 2024

2022-001: Other Postretirement Benefits Plan Accounting Standards Application

Criteria

As part of our audit, we are required to obtain an understanding of internal control relevant to the audit, which includes the end-to-end process around key financial reporting cycles and evidence the implementation of relevant controls and the related IT dependencies. (AU-C section 315)

Condition

Universal Service Administrative Company (the "Company") implemented a new other postretirement benefits ("OPEB") plan that was approved by the Company's Board of Directors and the Federal Communications Commission ("FCC") during the year ended December 31, 2022, in which the Company will provide healthcare benefits for retiring employees and their eligible family members. This was the first and only OPEB plan created by the Company. As the OPEB plan had an effective date of January 1, 2023, the Company determined that impact of the plan was not required to be reflected in the 2022 financial statements.

Referencing ASC 715-60-35-48 through 715-60-35-60, while the plan did not have an effective date until January 1, 2023, the accounting should have reflected the terms of the exchange transaction that took place between the Company, which is the provider of the other postretirement benefits, and the employees who render services in exchange for those benefits, as those terms were understood by both parties to the transaction. As such, once the other postretirement benefit plan was approved by the Company's Board of Directors and the FCC and was communicated to the Company's employee's, the Company should have recorded the associated financial impact of the plan.

As a part of the 2023 audit procedures, we validated that the plan was approved by the FCC on October 20, 2022 and was approved by the Company's Board of Directors on October 25, 2022. Subsequent to approval by the FCC and the Company's Board of Directors, the plan was communicated to all Company employees on October 28, 2022. As such, the Company should have recorded the initial impact of the plan as of October 28, 2022 and reflected this impact within the 2022 financial statements.

Cause

While the Company has a process to ensure all material obligations of the Company are appropriately approved by the Company's Board of Directors and the FCC, the Company did not appropriately consider the accounting implications per ASC 715 of the other postretirement benefit plan and specifically that the approval by the Company's Board of Directors and the FCC and subsequent communication to the Company's employees resulted in the establishment of a substantive plan, prior to the plan effective date.

Effect

The misinterpretation of the accounting implications per ASC 715 resulted in a misstatement within the 2022 financial statements being identified in which the other postretirement benefit plan obligation within the Company's Statement of Financial Position as of December 31, 2022 was understated by $30.9 million and the associated operating and non-operating expenses within the Company's Statement of Activities for the year-ended December 31, 2022 were understated by $0.7 million and $30.2 million, respectively. Further, this misinterpretation resulted in an understatement of the associated long-term receivable from the FCC on the Company's Statement of Financial Position as of December 31, 2022 by $30.9 million and the associated operating and non-operating revenues within the Company's Statement of Activities for the year-ended December 31, 2022 were understated by $0.7 million and $30.2 million, respectively.

Recommendation

We recommend the Company undertake actions to have controls associated with the aforementioned application of accounting principles designed and implemented appropriately, including maintaining the evidence of operating effectiveness of related controls.

Management's View and Corrective Action Plan

Refer to Appendix A for Management's View and Corrective Action Plan.

Universal Service Administrative Co.

Available for Public Use

Calendar Year 2022 USAC Financial Statement Audit Corrective Action Plan

Audit Finding Summary:

OPEB Finding: Incorrect understanding and interpretation of ASC 715-20 related to a newly established retirement benefits program resulted in a material misstatement of USAC's 2022 Statement of Financial Position and Statement of Activities as a liability representing the post-retirement benefit obligation was not recorded in 2022.

Management's Assessment & USAC Corrective Actions:

USAC management concurs with the finding and has agreed to restate 2022 financial statements and associated disclosures.

Corrective Action Plan:
USAC staff will familiarize themselves with OPEB related guidance and correct misstatements by making appropriate adjustments to the affected financial statements. Management will also incorporate a checklist to be used when corporate policy changes are proposed, to ensure all due diligence has been performed to identify financial impacts.

CAP Owner: Michelle Garber, VP of Finance and CFO

Planned Completion Date: June 30, 2024

X Michelle Garber