



Federal Communications Commission  
Washington, D.C. 20554

December 15, 2014

DA 14-1820

Mr. Chris Henderson  
Chief Executive Officer  
Universal Service Administrative Company  
2000 L Street, NW  
Washington, DC 20036

RE: Schools and Libraries Universal Service Support Mechanism – Reserve Funding

Dear Mr. Henderson:

As part of our ongoing oversight of the Universal Service Administrative Company (USAC)<sup>1</sup> and to ensure the best cash management practices for the Schools and Libraries Universal Service Support Mechanism (S&L program), this letter provides guidance from the Commission on how USAC should appropriately account for certain categories of potential disbursements within the S&L program, also known as the E-rate program. As you are aware, the Commission has directed USAC to prepare financial statements for the Universal Service Fund (USF), including the S&L program, consistent with generally accepted accounting principles for federal agencies (Federal GAAP) and to keep the USF in accordance with the United States Standard General Ledger (USSGL).<sup>2</sup> Consistent with that directive, below we address the amounts USAC should reserve for three categories: (1) applications for which USAC has not yet issued a funding commitment decision letter (FCDL); (2) funding that has been committed, but not disbursed after the close of the funding year, including those amounts for which applicants have filed a timely request for an extension on the deadline to invoice USAC for committed requests; and (3) funding decisions appealed, either to USAC or the Commission.

The first category is applications for which USAC has not yet issued an FCDL (“pending applications”). We direct USAC to reserve funding for pending applications based on their age, as set forth immediately below. For pending applications submitted in the then-current funding year and the most recent previous two funding years (currently, funding years 2014, 2013, and 2012), we direct USAC to reserve 100 percent for the amount of the requested funding that it estimates will be needed for successful applications – up to the maximum amount of the funding cap, plus the carry-forward amount minus administrative expenses, as announced and authorized by the Commission annually. We have determined that the cash reserve from a rolling three-year period – the then current and previous two funding years – is sufficient to fund these pending applications. In the interim, USAC should take appropriate action to provide a reserve sufficient to fund pending applications. In general, for funding years that are more than three years old (currently, FY 2011 and earlier), USAC should not reserve any funding for these pending applications. However, USAC may reserve funds for older funding year

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<sup>1</sup> Memorandum of Understanding Between the Federal Communications Commission and the Universal Service Administrative Company at III.B.1 (Sept. 9, 2008).

<sup>2</sup> *Application of Generally Accepted Accounting Principles for Federal Agencies and Generally Accepted Government Auditing Standards to the Universal Service Fund*, CC Docket No. 96-45, Order, 18 FCC Rcd. 19911, 19913 (2003).

applications, if circumstances exist where USAC estimates that reserves available under the rolling three-year period will not be sufficient to fund the older applications that are likely to be granted.

Second, we provide guidance to USAC with respect to funding that has been committed for a particular funding year but has not yet been disbursed by the close of the funding year. We discuss in this paragraph the undisbursed commitments for which an invoice extension has been requested and discuss other undisbursed commitments in the following paragraph. As an initial matter, we direct USAC not to reserve any funding for potential invoice extension requests. The dollar amounts for approved invoice extensions are accounted for as committed funding. Where that is not the case, such as those invoice extensions associated with funding years that closed several years ago, the dollar amounts are typically so small that a reserve is not required. When the rule establishing an invoicing deadline becomes effective,<sup>3</sup> we anticipate that USAC will be able to determine with certainty the dollars associated with invoice extensions and can take those amounts into account when analyzing the amount of funding to be reserved for committed funds generally.

For other committed funds that have not been disbursed, we direct USAC to quantify the remaining commitments and, using historical data, determine the appropriate amount to reserve for those remaining commitments. Historically, an average of 25 percent of the funding committed in any given funding year was not disbursed for that funding year.<sup>4</sup> Going forward, we expect that at least some portion of that amount (for example, 5 percent to 10 percent of the total amount available for commitment) will be identified as available for current use. The rest will remain in reserve to fund pending commitments and appeals. We emphasize that no commitments will actually be de-obligated as a result of the above process. Instead, USAC will just determine how much cash should be reserved to pay the remaining commitments, given that not all of them will be fully invoiced based on historical data. USAC should also take into consideration changes in the E-rate program that may affect cash available.

Finally, we have determined that the cash reserve from a rolling three-year period – the then current and previous two funding years – is also generally sufficient to fund successful appeals of USAC decisions. As noted above, there may be special circumstances where USAC is authorized to reserve additional funds for pending matters. As you are aware, many of the appeals are not granted by the Commission and therefore no disbursements will be made. Also, many of the appeals without a commitment are decided by the Commission within the current funding year (for example, the requests for waiver of the application deadline) and therefore are accounted for as a pending request for funding for the current funding year. In addition, for those appeals that may require additional commitments and disbursements in the unlikely event that the amounts held in reserve are not sufficient, the Commission has authorized USAC to use funds budgeted for subsequent funding years to fund discounts for successful appeals from prior funding years.<sup>5</sup> Therefore, USAC can use funds from subsequent funding years to fund successful appeals if no funding is available in the relevant funding year.

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<sup>3</sup> *Modernizing the E-rate Program for Schools and Libraries*, WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 8870, at paras. 238-239 (rel. July 23, 2014). The Commission codified USAC's procedural deadline for invoices of the latter of 120 days after the last day to receive services, or the date of the FCC Form 486 notification letter. *Id.* Applicants can also request and will automatically be granted a single 120-day extension of the invoicing deadline. *Id.*

<sup>4</sup> Prior analyses demonstrate that, on average, approximately one-fourth of committed funds are not invoiced and disbursed annually. Long-Term Strategic Vision Would Help Ensure Targeting of E-rate Funds to Highest-Priority Uses, GAO-09-253 (2009) at 27-28.

<sup>5</sup> See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, 18 FCC Rcd 9202, 9223-24, paras. 62-3 (2003).

We recognize and appreciate USAC's efforts to work with the Commission on these issues. If you have any questions or wish to discuss these issues further, please do not hesitate to contact me.

Sincerely,



Jon Wilkins  
Managing Director

cc: Dana Shaffer, OMD  
Mark Stephens, OMD  
Debra Weiner, OGC  
Julie Veach, WCB