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E-rate

sales guide

2007



This sales guide was created by Funds For Learning, LLC and Cisco and is current as of July 2006

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Program Contacts:

Leslie Buckalew
Industry Marketing Manager, Education
U.S. Field Marketing
lbuckale@cisco.com
408-526-6363

Renee Patton
Program Management
U.S. Field Marketing
repatton@cisco.com
408-526-6072

Funds For Learning, E-rate Support Partner

<http://cisco.fundsforlearning.com/>
cisco@fundsforlearning.com

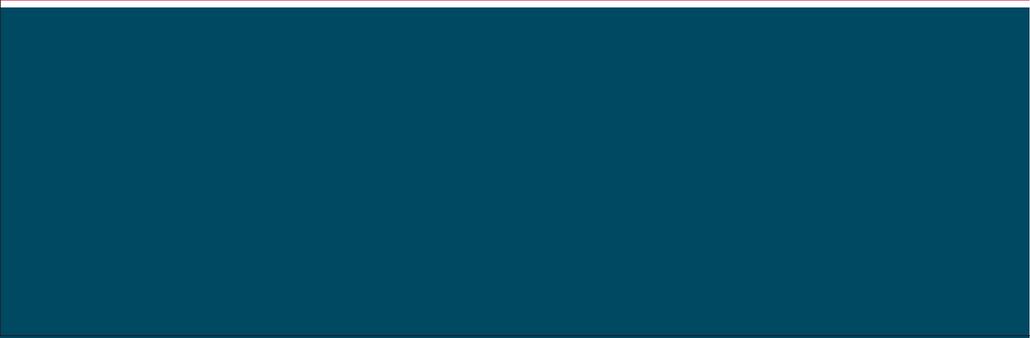
This sales guide was prepared by Funds For Learning, an E-rate consulting firm, based on its understanding of E-rate rules and regulations as of July 14, 2006. Changes are continually being made to E-rate program rules and regulations and their interpretation. Therefore, although every effort has been taken to ensure the accuracy of the information contained herein, we cannot guarantee that it will always be current, accurate or complete.

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E-rate Overview

The E-rate program, otherwise known as the Schools and Libraries Universal Service Support Mechanism, is the single largest funding source for educational technology in U.S. history, with more than \$2.25 billion worth of discounts available each year on the purchase of telecommunications services, Internet access, and networking equipment and maintenance. The Schools and Libraries Division (SLD) of USAC (Universal Service Administrative Company) administers the E-rate program under the guidance of the Federal Communications Commission.

The vast majority of K-12 public and private schools and libraries in the U.S. now make many of their technology purchases through the program. E-rate discounts range from 20 to 90 percent and vary based on the applicant's economic level and whether the school or library is located in an urban or rural area. Unlike typical education technology grant programs, every eligible E-rate applicant who correctly completes an application can qualify for some funding, as long as funds are available.

All requests for support for telecommunications services and Internet access are funded first. Then, requests for support for eligible internal connections and basic maintenance of those connections are funded based on need, as long as money is available. In recent years, only the neediest schools and libraries have been able to qualify for internal connections support. However, recent rule changes designed to limit repeated, unnecessary purchases may mean that in the future a wider range of schools and libraries can qualify.

Even if a school district is relatively wealthy, it will often contract for E-rate-eligible services according to the rules of the program in the event it qualifies for support. Even those schools or libraries that do not receive funding will often make the purchase to keep their technology plans on track.

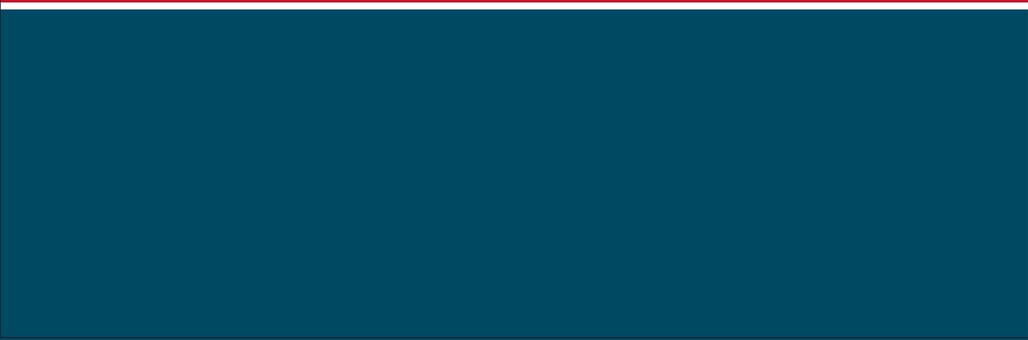
Most of the contracting activity under the E-rate program is concentrated within a few months of the year, culminating in the application deadline, which in recent years has fallen in February. It is important for sales people to pay attention to the program timeframes and deadlines because contracts can be secured as much as 18 months in advance. The program is governed by strict rules designed to promote and preserve fair and open competitive bidding practices.

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E-rate Sales Support Tools and Resources for Cisco AMs and Partners

Cisco Systems® has been a participant in the E-rate program as a supplier of equipment and services, primarily in the internal connections and maintenance categories, over the past several years. Working with the nationally recognized E-rate consulting firm, Funds For Learning, we provide our Cisco® account managers and reseller partners with E-rate training seminars, consultation support services, and a variety of support tools to enable them to understand and utilize the E-rate program, and to effectively position this program with end-user customers.

IMPORTANT NOTE: If you have any questions about the E-rate Program, please contact Funds For Learning to help ensure that you are working within the rules and guidelines of the program.

Important Web URLs:

Schools and Libraries Division of Universal Services Administrative Company:

<http://www.sl.universalservice.org/>

Funds For Learning main Website:

<http://www.fundsforlearning.com>

Funds For Learning Cisco Helpdesk:

<http://cisco.fundsforlearning.com>

Funds For Learning E-rate Manager Tool:

<http://www.eratemanager.com>

1. E-rate E-Mail Helpdesk Support

Funds For Learning provides answers to Cisco account manager and partner E-rate questions via e-mail and phone. Questions range from E-rate filing rules to product eligibility, filing deadlines, and substitution requests. The helpdesk can be reached at cisco@fundsforlearning.com.

2. Web-Based Cisco Helpdesk Support

Funds For Learning also provides a comprehensive Website with a range of support resources to enable our Cisco account managers and partners to navigate the E-rate program more effectively. This Website contains a complete helpdesk of frequently asked questions and critical program information, product eligibility lists, global product substitution lists of

E-rate Sales Support Tools and Resources for Cisco AMs and Partners

pending, approved, and denied requests, training materials, and funding data. To view this site, please go to: <http://cisco.fundsforlearning.com/>.

3. Funds For Learning E-rate Manager Tool*

E-rate Manager is the most comprehensive E-rate tool available to assist account managers in E-rate account opportunity identification and strategic account planning. This tool offers the following:

E-rate Manager Home Page

- E-rate News
- E-rate Manager Newsletters
- E-rate Program Funding Summary

E-rate Manager EDGE

- Search on funding requests by service category, year, partner, and applicant
- Obtain total requested, pending, committed, utilized, and rejected amounts
- Perform basic, advanced, and summary searches
- Create groups to easily and regularly monitor particular customers or partners

Sales Manager

- Allows rapid identification of best prospects among thousands of E-rate applicants seeking bids each year for eligible products and services
- Flags applications that reference designated keywords
- Incorporates available information related to likely discount rate, size of applicant, and history of E-rate utilization
- Aids in the prioritization of opportunities and routes them to your sales force by e-mail
- Can be used to import customer relationship management (CRM) databases

* E-rate Manager is available for all Cisco employees. Schools, libraries, and Cisco partners who wish to use the E-rate Manager tool may obtain pricing information from Funds For Learning by contacting sales@fundsforlearning.com.

E-rate Sales Support Tools and Resources for Cisco AMs and Partners

The following tools are helpful for resellers or instances in which funding requests have been requested in the name of Cisco

Funding

- Review details of all funding requests and commitments issued for a particular organization
- Track customers' billing preferences
- Capture notes about particular projects

Forms

- Create Forms 486, SPI, BEAR and 500
- View and modify existing forms

Reports

- Search on Form 486s by vendor, finished by applicant
- Search on unfiled Forms 486
- Balance reports by year
- Contacts report by funded applicant
- Funding commitment detail report by year
- Funding commitment detail report by applicant by year

E-rate Manager Tools

- Funding Wave Reports—E-rate funding is committed to many applicants simultaneously in weekly or biweekly intervals, or waves. Find information about commitments made to all applicants in a particular funding wave using this feature.
- Searchable version of Schools and Libraries Division's formal 2006, 2005, and 2004 eligible services list
- FCC Decision Database—A searchable database of most substantive appeals decisions and recent major orders that FCC has issued on the E-rate program
- Vendor Disbursement Search—Access to USAC data on E-rate disbursements for categories of vendors and by disbursement type

E-rate Sales Support Tools and Resources for Cisco AMs and Partners

- Billed Entity Search—Search for any school, school district, district, consortium, or other entity that has filed for E-rate discounts or been listed on an E-rate application.
- Service Provider Search—Find contact information for a service provider.
- CIPA Compliance Calculator—Helps E-rate applicants determine when their Form 486 is due in order to meet the requirements of the Children’s Internet Protection Act (CIPA)
- E-rate State Coordinators—Find contact information for each E-rate coordinator who has been designated to assist applicants on the state level.
- Form 470 Application Status Search—Find the status of all Form 470 applications filed by an applicant. The Form 470 application process isn’t complete when the form is posted to the SLD Website; the form must also be certified. This tool provides an easy way to determine if a form has been certified.

4. E-rate Training Seminars

Cisco works with Funds For Learning to provide national training programs for partners and applicants. In the event Cisco account managers or partners would like to schedule their own training, please contact Funds For Learning directly for pricing and scheduling at cisco@fundsforlearning.com.

5. E-rate Training Modules

Funds For Learning has developed a series of training modules that are extremely helpful for all Cisco account managers and partners. These modules are required for all Cisco account managers to ensure competence and effective sales strategies in selling through the E-rate Program. These training modules are located on the Funds For Learning site at <http://cisco.fundsforlearning.com> under “Video Training.”

E-rate Sales Support Tools and Resources for Cisco AMs and Partners

FY2006 Calendar of Important Sales Training and E-rate Events

NOTE: E-rate specific dates, for form filings, for example, fall in the FY2007 funding year, but they are building to the 2007 funding year.

E-rate Activity	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB
Take E-rate training modules, review sales guide, review all E-rate materials	X							
Begin national E-rate training seminars for AMs/partners/customers				X	X			
Customers begin posting Form 470s for a minimum of 28 days	X	X	X	X	X	X	X	
Vendors review Form 470 applications and submit bids (anticipated dates)		X	X	X	X	X	X	X
Customers select vendors and post Form 471s (anticipated dates)					X	X	X	X

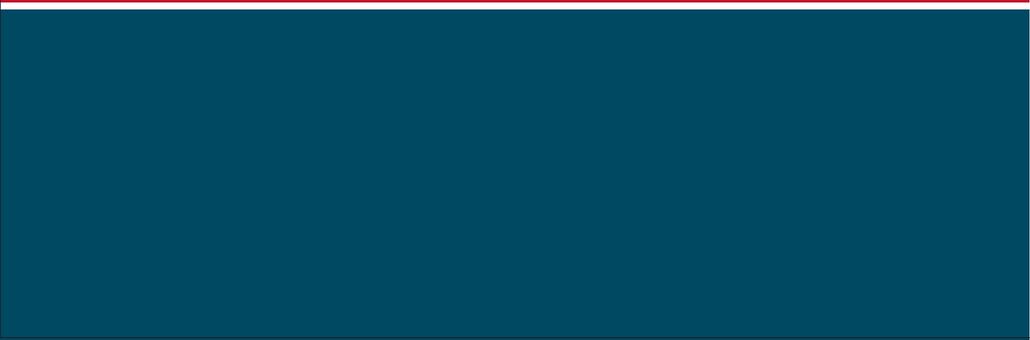
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Basic Steps

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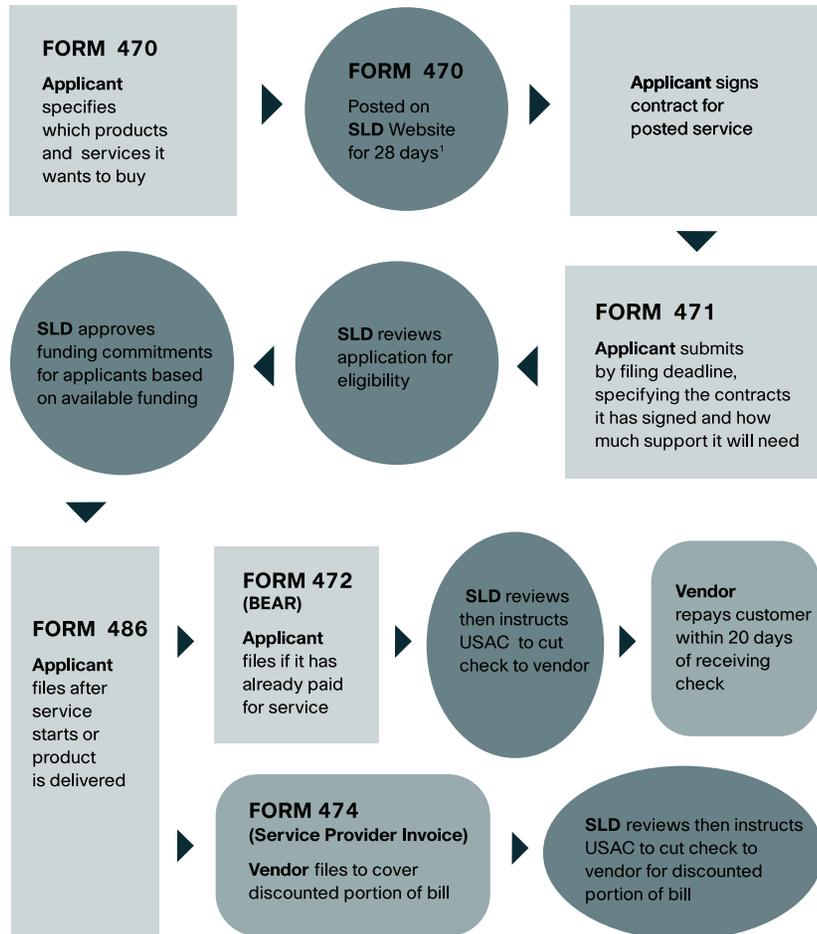
Basic Steps Involved in an E-rate Discounted Purchase

- Schools and libraries develop technology plan, if they don't already have one. The plan must be reviewed and approved by an authorized reviewer before services are delivered.
- Applicants begin procurements for E-rate-eligible products and services. At the same time, they post the Form 470 application on the SLD Website.
- Applicants wait at least 28 days and are required to consider bids from all responsive bidders.
- Applicants select a vendor and enter into a contractual agreement with the vendor.
- Applicants file the Form 471 application, specifying what they want to purchase, from whom, how much it will cost, and the discount rate for which they believe they are qualified.
- SLD reviews applications. Requests for eligible Priority 1 services (telecommunications services and Internet access) are reviewed first. Then, with the funding that remains, the SLD approves requests for Priority 2 services (internal connections and basic maintenance of internal connections), giving first priority to the neediest applicants.
- After the funding has been approved, the applicant must file the Form 486 to inform the SLD that its services have been started and that the SLD is authorized to pay the vendor.
- The applicant can then choose its preferred billing method. It can ask its vendor to bill the SLD directly for the discounted portion of the price and bill the applicant for the non-discounted portion. Or, the applicant can pay the full amount and seek reimbursement from the SLD for the discounted portion. If this option is chosen, the payment is sent to the vendor, who must remit it to its customer within 20 days.

Basic Steps Involved in an E-rate Discounted Purchase

Important Rules and Regulations

E-rate Application Process



Retain E-rate Documents

Applicants and service providers must retain all E-rate-related documentation for a funding commitment for a period of five years from the last date a product or service is delivered. This rule is effective for any funding commitment in funding years 2004 and later. Failure to retain the documentation or inability to produce it can lead to penalties, including the demand to repay the program.

Avoid Waste, Fraud, and Abuse

E-rate program administrators continually look to find waste, fraud, and abuse within the program. They closely scrutinize funding requests, visit applicant sites, audit applicants and service providers, and obtain information from the SLD's Code 9 (Whistleblower) hotline.

Bill (and Collect) for the Non-discounted Portion

Service providers or consultants are not permitted to waive the nondiscounted portion of an applicant's purchase price. Any special offers to reduce the price should be incorporated into the Form 471 "Total prediscount amount," so that both the applicant and the Universal Service Fund benefit from such price negotiations.

A link to the Free Services Advisory is located on the SLD Website at: www.sl.universalservice.org/reference/freeservices.asp

Maintain the Proper Role as a Service Provider

Service providers can assist applicants in many ways related to E-rate, except for a few specific areas:

Form 470/RFP Activities

- A service provider cannot assist the applicant in writing their RFP or completing or submitting the Form 470. Also, a service provider cannot be listed as a contact person on the RFP or Form 470.

¹A competitive bidding process must take place in conjunction with the Form 470 posting process. The 28-day posting period is not a mere formality; a bidding process must occur prior to an applicant signing a contract with a service provider.

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Rules

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Important Rules and Regulations

Service Provider Selection

- A service provider cannot assist in evaluating the responses to a Form 470 or RFP. Also, a service provider cannot do anything that would unjustly affect the service provider selection process, such as acting on inside information or capitalizing on a relationship (for example, a family member on the selection committee) to the service provider's advantage.

Certain PIA/Selective Review Questions

- Service providers are encouraged to assist applicants with questions related to the eligibility of products or the specifications of a particular product during the application review process. However, service providers cannot answer for the applicant any questions related to the applicant's budget or the competitive bidding process.

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Key Dates

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Critical Dates and Deadlines for the E-rate Program

July 1, 2006	2006 Funding Year starts
September 30, 2006	Deadline for using 2005 funding commitments for “non-recurring expenses” when the funding commitment letter was dated before March 1, 2006
Fall 2006	Focus of procurement activity for 2007 funding year (Form 470 application can be posted at any time during the year and must be posted in conjunction with a request for proposals [RFP] for E-rate-eligible equipment)
January 28, 2007	Payment paperwork due for most projects that had to be installed by September 30, 2006
February 2007	Anticipated 2007 Funding Year (FY) Form 471 filing deadline
July 1, 2007	2007 FY begins
September 30, 2007	Deadline for using funding commitments for 2004 or 2005 for “non-recurring expenses” when the funding commitment letter was dated on or after March 1, 2006
September 30, 2007	Standard deadline for using funding commitments for 2006 FY for “non-recurring expenses”
September 30, 2008	Standard delivery deadline for recurring services
September 30, 2008	Standard deadline for using funding commitments for 2007 FY for “non-recurring expenses”

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Eligibility

General Guidelines on E-rate Eligibility

The E-rate program is designed to provide discounts on telecommunications services and Internet access and the conduits used to deliver information to the classroom or library. Generally, if equipment can be removed without disrupting a classroom's connection to the Internet (or other information source), then the equipment will not be eligible for E-rate support. Similarly, if students cannot access the Internet or their e-mail without a certain device, then that device will be eligible for E-rate support. Note, however, that end user devices, such as desktop computers or phone handsets, are never eligible for E-rate support.

Basic maintenance and technical support services, such as Cisco SmartNet™, are eligible for E-rate discounts when the equipment that is being supported is itself eligible for E-rate discounts. E-rate funding commitments must be used during specific time periods. Only 12 months of maintenance and technical support services can be requested on an E-rate funding application.

Each year the FCC reviews the general services and products that are eligible for E-rate support. The updated list is typically available prior to the opening of the Form 471 application filing window each year. It is important to review the updated list to discover any changes in eligibility of a particular type of product. As always, Funds For Learning will provide details and analysis of any changes on the Funds For Learning Website at www.fundsforlearning.com or the E-rate manager Website at www.eratemanager.com.

Cisco works on an ongoing basis with the SLD to clarify eligibility issues surrounding its products and services. In certain cases, a portion of the cost of a product or service must be treated as ineligible for support. It is important to pay attention to eligibility rules because if the SLD determines that 30 percent or more of an applicant's request was ineligible for support, it will reject the whole request.

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Forms

Key E-rate Program Forms

Form 470 (Description of Services Requested and Certification Form)

The Form 470 must be filed to seek competitive bids for products and services for E-rate discounts. **The 470 Form may be filed at any time during the year and must be posted on the SLD Website for at least 28 days prior to filing a Form 471.** Under program rules, service providers are not permitted to help applicants in the preparation of their Form 470 applications or to help them screen potential bidders.

Form 471 (Services Ordered and Certification Form)

A Form 471 must be filed by schools, libraries or their consortia to request discounts on eligible services. **The Form 471 must be filed after a Form 470 has been posted on the SLD Website for at least 28 days and a contract with a service provider has been signed and dated by both parties.** In order to qualify for discounts, it must be filed by the deadline of the annual filing window, which usually occurs in early February.

Form 486 (Receipt of Service Confirmation Form)

The Form 486 is filed after a funding commitment has been approved and the applicant is ready to proceed with a project or services. A Form 486 must be postmarked within 120 days of the date services started or the date of the Funding Commitment Decision Letter, whichever is later. If the Form 486 is delayed, it may jeopardize some of the applicant's approved discounts.

Key E-rate Program Forms

Form 474 (Service Provider Invoice Form)

The Form 474 is the form through which the service provider seeks payment of the discounted portion of the purchase price from the Universal Service Administrative Company (USAC), the parent agency of the SLD. This form cannot be filed until the SLD has approved a Form 486 application covering the pertinent funding requests. This form can be submitted online or on paper. During the course of invoice review, the SLD may ask for additional details about the invoices and services provided. In addition, applicants may be asked to complete paperwork indicating that the work was completed to their satisfaction and certifying that they have paid their own portion of the costs. Under program rules, applicants can now specify whether they wish to have their providers submit discounted invoices or use the Billed Entity Applicant Reimbursement (BEAR) process (see below).

Form 472 — (Billed Entity Applicant Reimbursement [BEAR] Form)

The Form 472 is completed by an applicant that wants to be reimbursed when it has already paid for services and/or products that have been delivered. This can occur when an applicant decided to make a purchase before it had received its approved funding commitment. Or, in some cases, applicants prefer the BEAR process for internal budgeting reasons. BEAR forms are submitted on paper and must be signed by the applicant and an authorized representative of the service provider, certifying that the bills have been paid in the amounts shown. USAC disburses discount payments to the service provider, which is required to remit them to the applicant within 20 days.

Key E-rate Program Forms

Form 500 (Adjustment to Funding Commitment and Modification to Receipt of Service Confirmation)

The Form 500 is filed by an applicant if they want to do any of the following:

- Adjust the FY service start date reported on a previously filed Form 486
- Adjust the contract expiration date listed on the Form 471 application for the funding year. (This is often necessary when the applicant qualifies for additional time in which to complete a project because of a delayed funding commitment letter or a successful appeal.)
- To cancel a Funding Request Number (FRN)
- To reduce a Funding Request Number (FRN)

Form 473 (Service Provider Annual Certification)

The Form 473 must be filed each year by service providers participating in the E-rate program to certify that they will comply with program rules. The form must be filed before the SLD will disburse funding commitments in the name of that provider for that year.

Form 498 (Service Provider Information Form)

The Form 498 is filed by service providers that need to obtain a Service Provider Identification Number so that they can participate in the E-rate program. It is also the vehicle for making changes in any information that has been provided to the Universal Service Administrative Company, such as corporate name, address or contact persons. The form can be completed online or on paper.

Additional information about all of these forms, including detailed instructions for completing them, can be reviewed in the “Required Forms” section of the SLD Website at www.universalservice.org/sl.

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FAQs

Frequently Asked Questions About E-rate Program Basics

What is “E-rate”?

E-rate (short for “education rate”) was created by Section 254 (h) of the Telecommunications Act of 1996 (also known as the Snowe-Rockefeller-Exon-Kerrey Amendment). Through this program, schools and libraries can qualify for discounts on a wide variety of telecommunications, Internet access, and internal connections products and services.

Who is eligible to receive the discounts?

For a school to be eligible it 1) must be an elementary or secondary school as defined by the Elementary and Secondary Education Act of 1965, 2) must not operate on a for-profit basis, and 3) must not have an endowment greater than \$50 million. Libraries are considered eligible if they meet the definition found in the Library Services and Technology Act. Only libraries whose budgets are completely separate from that of a K-16 school are eligible to receive the discounts.

Are private and religious schools eligible for support?

Yes. Unlike many other federal programs, E-rate discounts are available to private schools on the same basis as their public counterparts. However, they must be operated on a not-for-profit basis, and they must not have an endowment greater than \$50 million. Religious schools can also qualify, as long as they meet those criteria.

How much money is available?

Up to \$2.25 billion is set aside for disbursement. In recent years, the Schools and Libraries Division has approved more than that because E-rate applicants have historically not used all of the discounts that were approved for their use. In addition, the Federal Communications Commission now permits undisbursed discounts to be “rolled over” for potential use in future years.

First priority is given to requests for support for telecommunications services and Internet access. When all eligible requests for those services are fulfilled, the program supports requests for internal connections products and services, with top priority given to the neediest applicants.

Frequently Asked Questions About E-rate Program Basics

What products or services are eligible?

Schools can apply for discounts for all “commercially available telecommunications services” that they need and want. These can include such things as basic telephone services, T-1 and ISDN lines, and wireless services. Schools can also qualify for discounts on “non-content” Internet access, including e-mail, and the technology needed to create an internal network, including routers, hubs, some network file servers and related operating software, and wireless local area networks (LANs). Computers (other than those used to run a network), most software packages, fax machines, modems, teacher training, electrical improvements, and asbestos removal do not qualify for the discounts. (For details, see www.universalservice.org/sl/tools/eligible-services-list.aspx. A searchable version of the list is also available in the Resources section of E-rate Manager at www.eratemanager.com.)

How is the discounted rate determined?

The applicable discount rate is based on a school’s level of economic need and whether it is located in an urban or rural area. The level of economic need is judged by the percentage of students who are eligible for free or reduced-priced lunches under the National School Lunch Program. Schools that don’t participate in that program or that experience problems with under-counting may use certain other counting mechanisms. Libraries derive their discount rate from the school district or districts in which they are located.

If the percentage of students in your school that qualifies for the National School Lunch Program is...	...and you are in an URBAN area, your discount will be...	...and you are in a RURAL area, your discount will be...
Less than 1%	20%	25%
1% to 19%	40%	50%
20% to 34%	50%	60%
35% to 49%	60%	70%
50% to 74%	80%	80%
75% to 100%	90%	90%

Frequently Asked Questions About E-rate Program Basics

Does a school or library have to cover all expenses and then wait for reimbursement?

No. Schools and libraries are only required to pay the undiscounted portion of the cost of their eligible services. For instance, if a school district qualifies for a 60 percent discount on the cost of certain services, the district would only have to come up with the remaining 40 percent of that cost. The rest would be billed directly to the Universal Service Fund Administrator. However, schools and libraries must be able to demonstrate that they have budgeted or made other financial arrangements to cover their portion of the price.

Who oversees the funding process?

The Schools and Libraries Division (SLD) of the Universal Services Administrative Company (USAC) manages the E-rate program. The Federal Communications Commission (FCC) sets the overall policy for the program.

What is the original source of the funding?

Telecommunications companies are required to contribute a set portion of their revenues to the Universal Service Fund, which was originally created to extend reasonably priced telephone services to rural and other underserved areas. The Universal Service Fund’s mission has now been redefined to use these funds to support the cost of telecommunications services for schools, libraries, and rural health care providers.

When can applications be submitted?

The E-rate application process begins with technology planning. When an applicant is ready to procure E-rate-eligible services and products, it should complete a Form 470 application at the same time it starts its procurement process. After the Form 470 is posted, it must consider responsive bids for a period of 28 days. It can then proceed to sign contracts and file a Form 471, requesting discounts on the specific products and services it needs.

The Form 471 application must be filed during a filing window that in recent years has run from early November to early February. Each year, the SLD sets the specific dates for that year’s Form 471 filing window.

Frequently Asked Questions About E-rate Program Basics

What is the “two-out-of-five” rule?

Starting with the 2005 funding year, applicants will be able to be approved for internal connections for a particular site in only two out of every five years, under a relatively new FCC rule. This restriction does not apply to basic maintenance of eligible internal connections; applicants can be approved every year for those Priority 2 services, assuming they continue to qualify. This rule should encourage schools and libraries to aggregate their purchases into particular years, if they can, and to try to ensure that if funding is approved for them, that they actually use it.

Under current program rules, a funding commitment will “count” in the year it is approved, whether or not the applicant ultimately uses it. However, if an applicant cancels the funding commitment using the Form 500 before any services are delivered, it will not count as a year for the site.

Specific Issues That May Arise

How do I make a service substitution following E-rate guidelines?

A service substitution permits applicants to request a modification to the applicant’s original funding requests on the Form 471. The criteria outlined by the Schools and Libraries Division states that a service or product must meet the following conditions:

- The substituted service or product must have the same functionality as the service originally proposed and applied for on the Form 471.
- The substitution does not result in an increase in the requested pre-discount amount. This does permit an applicant to seek service substitutions even if the price of the product or service increased, recognizing that the applicant would not be able to qualify for any additional funds.
- The substitution does not violate the contract between the applicant and the service provider, and is allowable under applicable state and local procurement laws.
- The substitution does not result in an increase in the percentage of ineligible services or functions.

Frequently Asked Questions About E-rate Program Basics

- The substitution is consistent with the Form 470 posting and/or RFP, if applicable.

A service substitution request is submitted in writing from the applicant. The request may be submitted via fax, e-mail, or regular mail. The Schools and Libraries Division rules and procedures for handling a service substitution are available at: <http://sl.universalservice.org/reference/ServiceSub.asp>.

Manufacturers can seek “Global Service Substitutions” for equipment models that are no longer manufactured. When the SLD has reviewed and approved one of these requests, applicants are not required to seek individual approvals, but should keep a copy of the approval of the global request in their files.

Funds For Learning maintains a list of pending and approved Global Service Substitutions. Access the list by selecting the Product Substitutions tab from the Cisco Helpdesk at <http://cisco.fundsforlearning.com>.

How can an applicant change service providers?

An applicant, in certain situations, may request to change service providers. A Service Provider Identification Number (SPIN) change may either be a Corrective SPIN Change or an Operational SPIN Change.

A Corrective SPIN change is a notification to the Schools and Libraries Division (SLD) that the SPIN number associated with one or more funding commitments is not correct. This can mean quite simply that a data entry error was made when the applicant submitted the Form 471 application online and a SPIN for another service provider was entered, or that the original service provider has merged with or been acquired by another company.

An Operational SPIN change request is one that seeks to change the service provider associated with a particular funding commitment for more substantive reasons.

Frequently Asked Questions About E-rate Program Basics

An Operational SPIN change is permitted when an applicant can certify that the following criteria have been met:

- The SPIN change is allowed under its state and local procurement rules
- The SPIN change is allowable under the terms of the contract between the applicant and the service provider, and
- The applicant has notified its original service provider of its intent to change service providers

The Schools and Libraries Division's rules and procedures for changing service providers are available at:

<http://sl.universalservice.org/reference/SpinChange.asp>.

When can an applicant transfer equipment to another location that was purchased with E-rate funds in a previous funding year?

The FCC now prohibits the transfer of equipment purchased with E-rate discounts for a period of three years after purchase. After three years, eligible entities are permitted to transfer equipment to other eligible entities, but such transfers must not be in consideration of money or anything else of value. The three-year restriction on transfers can be waived if a facility is closed, either temporarily or permanently.

The FCC requires all recipients of internal connections support to maintain asset inventory records for a five-year period. Documentation of equipment movement (after the three-year period) should clearly indicate the date of movement and the location to which the equipment was moved. In addition, equipment transfers during the three-year period should be reported to the SLD. The relevant instructions are available at http://www.sl.universalservice.org/reference/transfer_equipment.asp.

Can equipment trade-ins be counted in an E-rate contract, and if so, how?

If the equipment was not purchased with E-rate discounts, the value of the trade-in can be applied to the applicant's portion of the cost, as long as the reduction is based on the fair market value.

Frequently Asked Questions About E-rate Program Basics

If the trade-in involves equipment that WAS purchased with E-rate discounts, the value of the trade-in must be used to reduce the pre-discount cost of the new equipment so that the SLD can benefit from the same cost-savings as the applicant. For example, if the new equipment costs \$1,000 and there is a trade-in worth \$300, the new equipment should be reported as costing \$700. That way, if the applicant qualifies for a 50 percent discount, for example, that discount would be applied to the \$700 cost, not the \$1,000 original cost.

These rules are part of a requirement that applicants must pay their appropriate share of the cost of the project. The trade-in requirement, and other examples of how these rules are applied, can be reviewed at <http://www.sl.universalservice.org/reference/freeservices.asp>.

Is the provision of managed services (on-premise Priority 1 equipment services) eligible for E-rate funding or reimbursement?

In some cases, networking equipment installed at an applicant's site can qualify for treatment as a Priority 1 service. However, managed services, or "On-Premise Priority 1 Equipment," as the SLD generally describes these services, are subject to some very specific eligibility requirements. As a general rule, equipment that is located at an applicant's site is presumed to be internal connections, a Priority 2 service. The exception to this is if on-premise equipment is an integral part of an end-to-end Priority 1 service such as a telecommunications service or Internet access. Recurring or non-recurring charges for that service may include the cost of on-premise equipment used by the service provider to provide the Priority 1 service.

For such services to qualify as Priority 1 services, these conditions must be met:

- The on-premise Priority 1 equipment is part of the service provider's infrastructure that is used to provide an eligible telecommunications or Internet access service. This service must be provided to an applicant by a single service provider.
- The service provider must retain ownership of the equipment, and at no time can the applicant either by transfer or a lease-purchase option ever own the equipment or any of its

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- components. Contracts with language that suggests an applicant may eventually acquire ownership will be rejected.
- The service provider must be responsible for maintaining the equipment.
 - Service providers are limited in their ability to recoup the initial costs of construction or installation. Upfront costs must represent no more than 67 percent of total charges. This evaluation is made by dividing the initial capital costs (including equipment and its installation, but not maintenance) by all charges of the service over the funding year. In addition, if upfront costs total more than \$500,000, they must be amortized over a period of at least three years.
 - On-site equipment cannot be used by the school or library for any other purpose other than receipt of the eligible telecommunications services or Internet access services of which it is a part.
 - The applicant's own LAN must not be dependent on the equipment and must be able to function separately from the service provider's on-premise equipment. (In other words, if a router in one network is turned off, the other network would continue to operate.)
 - The FCC prohibits any contractual agreements that would prevent the service provider from using the network equipment to supply services to other customers. Service providers are expected to have the flexibility to make the infrastructure available on a shared basis to other customers.
 - The eligible equipment must be limited to equipment that is necessary to provide WAN connectivity. There must be a clear demarcation between the WAN and a local area network. Thus, Priority 1 service charges may include the cost of leasing a single basic terminating component, such as a CSU/DSU. In addition, all of the components must be architecturally directly connected. As a result, the SLD currently will not fund PBX-type equipment as part of a Priority 1 service because they route calls within the premises of a school or library.
 - Configurations must be economically justifiable and must not include redundant components simply to achieve eligibility.

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Further information on the eligibility of on-premise Priority 1 equipment is available at: <http://www.sl.universalservice.org/reference/OnPremP1.asp> and at <http://www.sl.universalservice.org/reference/wan.asp#4>.

CISCO SYSTEMS



E-rate

sales guide

A Glossary of Key E-rate Terms and Acronyms

BEAR Form – Billed Entity Applicant Reimbursement Form (Form 472). E-rate applicants must use this form to receive E-rate discounts on bills they have already paid.

CIPA – Children's Internet Protection Act. Schools and libraries that receive E-rate discounts in the Internet access and internal connections categories are required to comply with this law.

Discount Matrix – This determines the E-rate discount percentage for which an applicant qualifies, based on the percentage of students that are eligible for the National School Lunch Program, and whether the institution is located in an urban or rural area.

Eligible Services List – The Schools and Libraries Division's formal list of services that are eligible for E-rate discounts. The document can be reviewed at www.sl.universalservice.org/Reference/eligible.asp. Funds For Learning provides a searchable version of this list at www.fundsforlearning.com/data/eligible.html.

FCCRN – FCC Registration Number. Each entity (applicant, service provider, consultancy) participating in the E-rate program must register with the FCC and receive a registration number. If your business doesn't have one, obtain it through the FCC Website at www.fcc.gov.

FCDL – Funding Commitment Decision Letter. The SLD uses this letter to notify schools and libraries whether their funding requests are approved or rejected. An applicant will receive at least one letter for each application it submits. These letters are distributed every other week, in what the SLD calls “waves.” Copies are sent to a company whose name was cited when a funding request was made.

Form 470 – This is the first application form that schools and libraries must file to qualify for E-rate discounts. It serves the same purpose as a Request for Proposal. It must be posted for 28 days on the Website of the SLD.

Form 471 – This application form, the second step in the process, is the vehicle through which an applicant submits its specific funding requests, including the type of service and name of the vendor.

A Glossary of Key E-rate Terms and Acronyms

Form 474 – Service Provider Invoice Form (also SPI or SPIF). This form is submitted by vendors to receive the discounted portion of the purchase price directly from the Universal Service Administrative Company. The vendor must invoice its customer for the non-discounted portion of the price.

Form 486 – After a funding commitment has been approved, this application form is used by a school or library to confirm that it has begun receiving E-rate-eligible services. This form is also used to certify compliance with the Children’s Internet Protection Act, and to confirm that the applicant’s technology plan has been approved.

Form 498 – Companies file this form to obtain a Service Provider Identification Number (SPIN) so that they can participate in the E-rate program.

FRN – Funding Request Number (Block 5 of Form 471). This number is used to identify individual funding requests that have been submitted (and eventually approved or rejected) for a particular applicant, for a particular vendor, for a particular amount, for a particular site or sites, and for a particular funding year.

NECA – National Exchange Carrier Association. This telecom industry trade association, which predated the Telecommunications Act of 1996, is the subcontractor that handles most of the SLD’s E-rate application processing and review. It is based in Whippany, NJ.

Priority 1 Services – Telecommunications services and Internet access. Schools and libraries can qualify for support for these two categories of services, no matter their discount rate.

Priority 2 Services – Internal connections and basic maintenance of internal connections. After the Schools and Libraries Division reviews all eligible requests for Priority 1 services, it can begin approving requests for Priority 2 services, based on the applicant’s need. Under a new rule, applicants can be approved for internal connections for a particular site in only two out of every five years. This restriction does not apply to basic maintenance of eligible internal connections.

A Glossary of Key E-rate Terms and Acronyms

SLC – Schools and Libraries Corporation. The original name of the entity responsible for the day-to-day management of the E-rate program.

SLD – Schools and Libraries Division of the Universal Service Administrative Company (USAC). Because of congressional pressure, in 1999, all Universal Service Fund programs were consolidated within USAC, and the Schools and Libraries Corporation became the Schools and Libraries Division.

SPI (SPIF) – Service Provider Invoice Form (also Form 474). This form is submitted by vendors to receive the discounted portion of the purchase price directly from the Universal Service Administrative Company. The vendor must invoice its customer for the non-discounted portion of the price.

SPIN – Service Provider Identification Number. Every company that participates in the E-rate program must file the paperwork to receive this nine-digit number.

USAC – Universal Service Administrative Company. This entity collects and disburses all of the funds that are part of the Universal Service Fund. It is the parent organization of the Schools and Libraries Division.

USF – Universal Service Fund. This fund includes the schools and libraries (E-rate) program, as well as three other programs of support for telecommunications services: the rural health care program, the high-cost program of support for rural telephone customers, and the lifeline program that provides support for low-income customers.

Wireline Competition Bureau – The Federal Communications Commission division that regulates traditional telephone service and sets overall policies for the E-rate program. This bureau used to be known as the Common Carrier Bureau.

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Corporate Headquarters

Cisco Systems, Inc.
170 West Tasman Drive
San Jose, CA 95134-1706
USA

www.cisco.com

Tel: 408 526-4000
800 553-NETS (6387)
Fax: 408 526-4100

European Headquarters

Cisco Systems International BV
Haarlerbergpark
Haarlerbergweg 13-19
1101 CH Amsterdam
The Netherlands

www-europe.cisco.com

Tel: 31 0 20 357 1000
Fax: 31 0 20 357 1100

Americas Headquarters

Cisco Systems, Inc.
170 West Tasman Drive
San Jose, CA 95134-1706
USA

www.cisco.com

Tel: 408 526-7660
Fax: 408 527-0883

Asia Pacific Headquarters

Cisco Systems, Inc.
168 Robinson Road
#28-01 Capital Tower
Singapore 068912

www.cisco.com

Tel: +65 6317 7777
Fax: +65 6317 7799

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