

Schedule B



**ILLINOIS TELECOMMUNICATIONS
ACCESS CORPORATION
SPRINGFIELD, ILLINOIS**

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2017



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ILLINOIS TELECOMMUNICATIONS ACCESS CORPORATION
SPRINGFIELD, ILLINOIS
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Illinois Telecommunications Access Corporation
Springfield, Illinois

We have audited the accompanying financial statements of Illinois Telecommunications Access Corporation (ITAC), which comprise the Statement of Financial Position as of December 31, 2017, and the related Statements of Activities and Cash Flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Illinois Telecommunications Access Corporation as of December 31, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Sikich LLP

Springfield, Illinois
February 27, 2018

FINANCIAL STATEMENTS

ILLINOIS TELECOMMUNICATIONS ACCESS CORPORATION

STATEMENT OF FINANCIAL POSITION

December 31, 2017

ASSETS

CURRENT ASSETS

Cash	\$ 1,218,183
Certificates of deposit	500,000
Accounts receivable	702,236
Prepaid expenses	227,228
Total current assets	<u>2,647,647</u>

PROPERTY AND EQUIPMENT

Telebraille equipment	173,890
LVD equipment	49,733
CapTel equipment	269,040
Computer equipment and software	52,620
Furniture and fixtures	158,357
Total property and equipment	<u>703,640</u>
Less accumulated depreciation	(608,649)
Total property and equipment, net	<u>94,991</u>

TOTAL ASSETS \$ 2,742,638

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable:	
Telecommunications relay service	\$ 255,195
Other	70,989
Total current liabilities	<u>326,184</u>

UNRESTRICTED NET ASSETS 2,416,454

TOTAL LIABILITIES AND NET ASSETS \$ 2,742,638

See accompanying Notes to Financial Statements.

ILLINOIS TELECOMMUNICATIONS ACCESS CORPORATION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

REVENUES	
Subscriber line charge	\$ 5,194,260
Investment income	5,785
Dual party relay income	983
Other income	89
Total revenues	<u>5,201,117</u>
EXPENSES	
Telecommunications relay service	1,579,988
Voucher program	765,987
Administration	1,043,532
Equipment distribution and maintenance	110,702
Legal	51,197
Depreciation	29,008
Accounting and consulting	111,057
Other	845,174
Total expenses	<u>4,536,645</u>
CHANGE IN UNRESTRICTED NET ASSETS	664,472
UNRESTRICTED NET ASSETS - BEGINNING OF YEAR	<u>1,751,982</u>
UNRESTRICTED NET ASSETS - END OF YEAR	<u><u>\$ 2,416,454</u></u>

See accompanying Notes to Financial Statements.

ILLINOIS TELECOMMUNICATIONS ACCESS CORPORATION

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 664,472
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	29,008
Net effect on cash flows of changes in:	
Accounts receivable	(197,089)
Prepaid expenses	(34,197)
Current liabilities	(613,264)
Net cash from operating activities	<u>(151,070)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(10,219)
Maturity of CDARS	500,000
Net cash from investing activities	<u>489,781</u>
CHANGE IN CASH	338,711
CASH - Beginning of year	<u>879,472</u>
CASH - End of year	<u>\$ 1,218,183</u>

See accompanying Notes to Financial Statements.

ILLINOIS TELECOMMUNICATIONS ACCESS CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

1. NATURE OF BUSINESS

Illinois Telecommunications Access Corporation (ITAC) is an Illinois not-for-profit corporation established by the Illinois local exchange carriers (LECs) in accordance with the approval of the Illinois Commerce Commission (ICC) in Docket No. 85-0502. ITAC became operational in March 1988, and its membership consists of all Illinois LECs and interconnected Voice over Internet Protocol (VoIP) service providers. On June 15, 2010, Public Act 096-0927 was signed into law and requires fixed or non-nomadic interconnected VoIP service providers to collect and remit assessments in the same manner as LECs. Effective June 29, 2015 section 13-703(f) of the subscriber line charge and assessment established in 83 Ill. Adm. Code 755 was amended to include sellers of prepaid wireless telecommunications service and wireless carriers in Illinois. Pursuant to the amendment, wireless carriers assess and remit the monthly subscriber line charge. The assessment on prepaid wireless telecommunications service is imposed as a percentage of the transaction and collected and remitted by the seller mirroring the Prepaid Wireless 9-1-1 Surcharge Act. The purpose of ITAC is to distribute, at no charge, to qualified deaf, deaf-blind, hard of hearing and voice-disabled Illinois residents, teletypewriters (TTYs), amplified phones, telebraille devices, and other assistive devices; and to provide telecommunications relay service and captioned telephone relay service whereby a hearing or voice-disabled person with a TTY or other appropriate equipment can communicate with a person who uses a standard telephone.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The accounting records of ITAC are maintained on the accrual basis of accounting. Revenues are reported when earned and expenses are reported as incurred.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subscriber Line Charge – In accordance with Section 13-703(c) of the Illinois Public Utilities Act (220 ILCS 5/13-703) (Act), and as ordered by the ICC, each facilities-based LEC, VoIP, and wireless service provider and retail vendors of wireless services are required to collect a monthly subscriber line charge and assessment to fund the telecommunications access program. The subscriber line charge and assessment established in 83 Ill. Adm. Code 755.500 is adjusted annually to ensure that revenues match expenses and that ITAC maintains a sufficient, but not excessive, cash balance. Under the line charge and assessment methodology, ITAC is required to increase or decrease the line charge and assessment annually to (1) “recover” or “refund” its current year results of operations from subscribers, (2) match revenues to expected expenses for the subsequent year and (3) maintain a sufficient, but not excessive cash balance. ITAC receives the subscriber line charge and assessment remittances from all member telephone companies and VoIP service providers on a monthly basis.

Pursuant to a April 19, 2017 Order of the ICC, in Docket 17-0108, the monthly subscriber line charge and assessment was to be increased to 4¢ for all Illinois telecommunications carriers, including wireless carriers (other than prepaid wireless carriers) and VoIP residential subscriber line, 0.8¢ per Centrex line and VoIP business line, and 20¢ per PBX truck, effective July 1, 2017. The assessment of prepaid wireless transactions is established at .15% of prepaid retail transactions, to be implemented by the Illinois Department of Revenue. Charges for services provisioned by T-1 lines and other advanced services shall mirror the carrier’s applications of 9-1-1 charges for bills issued on or after July 1, 2017.

Cash – Under an agreement with Illinois National Bank (INB), INB sweeps cash in excess of ITAC’s daily operating requirements overnight. ITAC also utilizes one interest bearing savings account (Maximizer) to keep cash in excess of its daily operating requirements. The Maximizer account requires a minimum balance of \$50,000. The interest on this account earned by ITAC is based upon market conditions.

Certificates of Deposit – ITAC had \$500,000 in certificates of deposit for which INB was the custodian at year-end. All certificates are recorded at cost.

Accounts Receivable – Accounts receivable are stated at the amount management expects to collect and accounts are written off as deemed uncollectible. At December 31, 2017, management considered all balances collectible and establishment of an allowance for doubtful accounts was not considered necessary. Historically, ITAC has not experienced significant losses from uncollectable accounts receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment – In accordance with an ICC order, ITAC capitalizes the cost of all CapTel Phones, Large Visual Displays (LVDs) and telebraille devices and depreciates such equipment on a straight-line basis (utilizing a half-year convention) over a five-year useful life. TTY's and amplified phones purchased under voucher programs are not considered ITAC equipment and are not capitalized. Computer equipment and software and furniture and fixtures with a cost of \$500 or greater is capitalized and depreciated on a straight-line basis (utilizing a half-year convention) over three and seven years, respectively.

Equipment Distribution and Maintenance Expense – ITAC manages distribution services through 45 regional centers located throughout Illinois. Payments made by ITAC for distribution, training and maintenance services associated with its TTYs and amplified phones are charged to equipment distribution and maintenance expense as incurred. As of December 31, 2017, 2,682 TTYs have been distributed through the voucher program to participants by ITAC. For the year ending December 31, 2017, 4,478 amplified phones were distributed through the voucher program.

ITAC provides distribution and testing services of CapTel Phones at the centers. As a result of limited distribution, ITAC does not provide training services for LVDs. Pursuant to a Telebraille Device Distribution Training and Service Agreement effective July 1, 2017, Chicago Lighthouse for the Blind, an Illinois not-for-profit corporation, provides telebraille distribution and training services for ITAC. Payments to the Chicago Lighthouse for the Blind and are charged to distribution expense as incurred.

Advertising Expense - ITAC advertising and promotional expense includes giveaways at trainings and conferences, Facebook advertising, and TV commercials. ITAC began advertising through Facebook and TV commercials in 2017 to promote the free amplified telephone voucher program. Advertising and promotional costs are expensed as incurred. Total advertising and promotional expense for 2017 and 2016 were \$837,166 and \$224,749, respectively.

Retirement Benefits – ITAC participates in a 401(k) defined contribution plan for all salaried employees who meet certain age and service requirements. Contributions are at a rate of 8%. The amount charged to 401(k) expense in 2017 was \$41,682.

Financial Statement Presentation - ITAC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At December 31, 2017, all net assets were considered unrestricted.

Subsequent Events - ITAC has evaluated subsequent events through February 27, 2018, which was the date that these financial statements were available for issuance, and determined that there were no significant non-recognized subsequent events through that date.

ILLINOIS TELECOMMUNICATIONS ACCESS CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

3. TELECOMMUNICATIONS RELAY SERVICE

On August 31, 1999, ITAC entered into a telecommunications relay services agreement (TRS Agreement) with Sprint Communications Company (Sprint). The agreement, as amended, established the cost per minute of use for TRS as \$1.32 for 2015 through January 2017. Beginning February 2017, TRS cost is a flat monthly rate of \$42,750. The established cost per minute of use for CapTel is \$1.82 for 2015 through January 2017, and \$1.94 for February 2017 through January 2020. Under these agreements, ITAC incurred \$1,579,988 of expenses for the year ended December 31, 2017.

4. INCOME TAXES

ITAC has received a determination letter from the Internal Revenue Service that exempts ITAC from federal income tax under Section 501(c)(3) of the Internal Revenue Code. ITAC is also exempt from state income tax under similar provisions of state law and is not classified as a private foundation.

5. LEASE COMMITMENT

ITAC leases office and storage space under an agreement expiring on July 31, 2023. The terms of the lease require ITAC to pay the following:

2018	\$	88,746
2019		89,460
2020		90,460
2021		91,202
2022		92,241
Thereafter		53,808
Total	\$	<u>505,917</u>

In 2017, ITAC incurred \$100,395 for rent expense.

6. CONCENTRATION OF CREDIT RISK

Credit risk is the exposure to economic loss that would occur as a result of nonperformance by counterparties, pursuant to the terms of their contractual obligations. Specific components of credit risk include counterparty default risk, concentration risk and settlement risk. In 2017, ITAC received remittances of \$3,686,364 from five telecommunications carriers/VoIP providers (including wireless), which represented approximately 71% of subscriber line revenues. Also see Note 3 with regard to ITAC's TRS Agreement with Sprint. Concentration of credit risk with respect to ITAC's accounts receivable and continuing operations are significantly reduced because they primarily represent payment and performance obligations of traditional regulated telephone local exchange carriers.

ILLINOIS TELECOMMUNICATIONS ACCESS CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

6. CONCENTRATION OF CREDIT RISK (Continued)

ITAC maintains cash balances at a financial institution located in Springfield, Illinois. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Due to fluctuations in cash receipts throughout the year at times the cash balance may exceed FDIC limits, ITAC has not experienced any losses in such accounts. At December 31, 2017, deposits exceeded federally insured limits by \$97,488.

7. VOUCHER PROGRAMS

Effective September 7, 2004, ITAC implemented an equipment voucher program, in accordance with 83 Ill. Adm. Code Part 755, to provide recipients with the necessary equipment to engage in regular and routine telephone communication. Under the voucher program, this equipment is owned by the recipient. ITAC provides three year warranties on all voucher program equipment. At the end of the three years the recipient is eligible for new equipment, or sooner if their disability has changed significantly and new equipment would be required in order to engage in regular and routine telephone communications.

8. CASH

Cash consisted of the following:

Checking – sweep	\$ 986,681
Maximizer (savings)	<u>231,502</u>
Total cash	<u>\$ 1,218,183</u>