ILLINOIS TELECOMMUNICATIONS ACCESS CORPORATION

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR’S REPORT

For the Year Ended December 31, 2003
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INDEPENDENT AUDITORS’ REPORT

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

We have audited the accompanying statement of financial position of Illinois Telecommunications Access Corporation (an Illinois not-for-profit corporation) (the Company) as of December 31, 2003 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Company’s management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Illinois Telecommunications Access Corporation as of December 31, 2003 and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Springfield, Illinois
February 26, 2004
ILLINOIS TELECOMMUNICATIONS ACCESS CORPORATION

STATEMENT OF FINANCIAL POSITION
December 31, 2003

ASSETS

CURRENT ASSETS:
- Cash and cash equivalents: $5,352,310
- Accounts receivable: 788,719
- Prepaid expenses: 564,754
  Total current assets: 6,705,783

PROPERTY AND EQUIPMENT:
- TTY equipment: 2,552,880
- Telebraille equipment: 160,666
- LVD equipment: 33,067
- Computer equipment and software: 54,082
- Furniture and fixtures: 53,007
  Total property and equipment - gross: 2,853,702
  Less accumulated depreciation: (2,820,423)
  Total property and equipment - net: 33,279

TOTAL ASSETS: $6,739,062

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:
- Accounts payable:
  Telecommunications relay service: $444,044
  Other: 81,070
  Total accounts payable: 525,114
- Surcharge received in advance: 762,823
  Total current liabilities: 1,287,937

NET ASSETS - Beginning of year: 3,451,610
- Change in net assets: 1,999,515
  NET ASSETS - End of year: 5,451,125

TOTAL LIABILITIES AND NET ASSETS: $6,739,062

See accompanying Notes to Financial Statements.
ILLINOIS TELECOMMUNICATIONS ACCESS CORPORATION

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2003

REVENUES:
Subscriber line charge $8,843,514
Investment income 70,440
Telecommunications relay service 66,308
Other income 3,577

Total revenues 8,983,839

EXPENSES:
Telecommunications relay service 5,810,985
Administration 601,967
Equipment distribution and maintenance 161,968
Legal 90,380
Depreciation 97,335
Accounting and consulting 76,315
Loss on property and equipment retirements 447
Other 144,927

Total expenses 6,984,324

CHANGE IN NET ASSETS $1,999,515

See accompanying Notes to Financial Statements.
CASH FLOWS FROM OPERATING ACTIVITIES:
Change in net assets .................................. $ 1,999,515
Adjustments to reconcile change in net assets to net cash used in operating activities:
Loss on property and equipment retirements 447
Depreciation and amortization ....................... 97,335
Net effect on cash flows of changes in:
Accounts receivable .................................... 544,042
Prepaid expenses ...................................... (558,910)
Current liabilities .................................... 305,558

Net cash flows from operating activities ........... 2,387,987

CASH FLOWS FROM INVESTING ACTIVITIES:
Purchase of equipment ................................ (3,783)

Net cash used in investing activities ............... (3,783)

NET INCREASE IN CASH AND CASH EQUIVALENTS 2,384,204

CASH AND CASH EQUIVALENTS - Beginning of year 2,968,106

CASH AND CASH EQUIVALENTS - End of year $ 5,352,310

See accompanying Notes to Financial Statements.
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. The purpose of ITAC is to distribute, at no charge, to qualified deaf, hard of hearing and voice-disabled Illinois residents, teletypewriters (TTYS) and telebraille devices for persons who are deaf-blind and voice-disabled-blind; and to provide telecommunications relay service whereby a hearing or voice-disabled person with a TTY can communicate with a person who uses a standard telephone.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Subscriber Line Charge* – In accordance with Section 13-703(c) of the Illinois Public Utilities Act (ILCS 5/18-703) (Act), and as ordered by the ICC, each facilities-based LEC is required to collect a monthly subscriber line charge to fund the telecommunications access program. The subscriber line charge 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 methodology, ITAC is required to increase or decrease the line charge annually to (1) "recover" or "refund" its current year results of operations from telephone 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 remittances from all member telephone companies on a monthly basis. Pursuant to a May 7, 2003, Order of the ICC, in Docket 03-0213, the monthly subscriber line charge was decreased from 10¢ to 8¢ per access line and from 1.0¢ to 0.8¢ per Centrex line, effective June 1, 2003.

*Cash and Cash Equivalents* – Under an agreement with Illinois National Bank (INB), INB sweeps cash in excess of ITAC’s daily operating requirements, overnight, into the Fidelity Institutional Money Market Fund Class III Domestic Portfolio account on behalf of ITAC. ITAC also utilizes two interest bearing savings accounts to keep cash in excess of its daily operating requirements. The Maximizer accounts require a minimum balance of $50,000, respectively. The interest on these accounts earned by ITAC is based upon market conditions. Since these investments mature in less than 3 months, they are deemed to be cash equivalents.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fair Value of Financial Instruments – The carrying account of cash and cash equivalents, accounts receivable and accounts payable, approximate fair value due to their short maturity.

Property and Equipment – In accordance with an ICC order, ITAC capitalizes the cost of all TTY’s, 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. The cost of computer equipment and software and furniture and fixtures is also 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 18 regional centers located throughout Illinois. ITAC also has an agreement with CapiTel Communications to provide ITAC with TTY maintenance services. Payments made by ITAC for distribution, training and maintenance services associated with its TTYs are charged to equipment distribution and maintenance expense as incurred. As of December 31, 2003, 8,449 TTYs had been distributed to participants by ITAC.

Pursuant to a Telebraille Device Training and Service Agreement dated March 18, 1991, as amended, Chicago Lighthouse for the Blind, an Illinois not-for-profit corporation, provides telebraille distribution and training services for ITAC. Payments are made annually to the Chicago Lighthouse for the Blind and are charged to distribution expense as incurred.

Retirement Benefits – ITAC participates in a 401(k) defined contribution benefit plan at a contribution rate of 8%. The amount charged to 401(k) expense in 2003 was $23,639.

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.
3. TELECOMMUNICATIONS RELAY SERVICE

On August 31, 1999, ITAC entered into a telecommunications relay services agreement (TRS Agreement) with Sprint Communications Company (Sprint). Effective February 1, 2003, the cost per minute of use for TRS was increased from $1.08 to $1.15. On September 20, 2002, ITAC entered into an amendment of the TRS Agreement with Sprint (Amendment 3) to provide a captioned telephone (CapTel) trial from January 1, 2003 to February 1, 2004. Effective January 1, 2003, the cost per minute of use for CapTel was $1.32. Under these agreements, ITAC incurred $5,810,985 of expenses for the year ended December 31, 2003.

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.

5. LEASE COMMITMENT

ITAC leases office space. In 2003, ITAC incurred $43,232 for rent expense. The terms of the lease require ITAC to pay the following over the course of the lease:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$41,111</td>
</tr>
<tr>
<td>2005</td>
<td>41,755</td>
</tr>
<tr>
<td>2006</td>
<td>41,755</td>
</tr>
<tr>
<td>2007</td>
<td>41,755</td>
</tr>
<tr>
<td>Total</td>
<td>$166,376</td>
</tr>
</tbody>
</table>

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. ITAC received 2003 related remittances from SBC Ameritech of $5,029,017, which represented approximately 57% of subscriber line revenues for the year then ended. 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.
7. PREPAID CAPTEL MINUTES

In exchange for effectively reduced billing rate for CapTel services, ITAC paid Sprint a lump sum of $546,118 on December 22, 2003, to purchase 356,940 CapTel minutes at a rate of $1.53 per intrastate minutes of use plus the appropriate percentage of toll free calls generated by and through the State of Illinois. If, at the end of January 31, 2005, the total actual number of Illinois CapTel call minutes generated is less than 356,940, Sprint will refund the value of the unused minutes by issuance of a check or by application of a credit against future CapTel or TRS billings, at ITAC’s option.

8. LUMP SUM PAYMENTS

During fiscal year 2003, ITAC received several lump sum payments totaling approximately $795,000 from a LEC and affiliated entities. According to the LEC, these payments represent belated remittance of line charge obligations that the LEC asserts were underpaid or not reported to ITAC for the time period from January 1997 through December 2002.