

Relay Administration Board
Financial Statements
December 31, 2018

Relay Administration Board

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Independent Auditor's Report

To the Board of Directors
Relay Administration Board
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the business-type activities of the Relay Administration Board, a component unit of the State of Louisiana, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Relay Administration Board's basic financial statements as listed in the table of contents.

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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 respective financial position of the business-type activities of the Relay Administration Board as of December 31, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Relay Administration Board's basic financial statements. The schedule of compensation, benefits, and other payments to the agency head on page 17, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of compensation, benefits, and other payments to the agency head is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the schedule of compensation, benefits, and other payments to the agency head is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2019, on our consideration of the Relay Administration Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is 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 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 Relay Administration Board's internal control over financial reporting and compliance.

Hienz & Macaluso, LLC

Metairie, Louisiana

June 30, 2019

Management's Discussion and Analysis

Relay Administration Board
Management's Discussion and Analysis
December 31, 2018

Introduction

The Management's Discussion and Analysis (MD&A) of the Relay Administration Board's ("RAB") financial performance presents a narrative overview and analysis of RAB's financial activities for the year ended December 31, 2018. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. As with other sections of this financial report, the information contained within this MD&A should be considered only a part of a greater whole. The readers of this statement should take time to read and evaluate all sections of this report, including the footnotes and the supplementary information that is provided in addition to the MD&A.

Financial Highlights

RAB's assets exceeded its liabilities (net position) at the close of fiscal year 2018 by \$25,184,381 which represents over a 5% decrease in net position from last fiscal year.

Total assets, consisting almost entirely of investments, decreased by 5% to \$25,328,124.

At December 31, 2018, the investment portfolio was comprised of U.S. Government and Agency bonds (32%), corporate bonds (17%), equity securities(41%), money market funds (4%), and mutual funds (6%). At December 31, 2017, the investment portfolio was comprised of U.S. Government and Agency bonds (21%), corporate bonds (19%), equity securities(52%), money market funds (2%), and mutual funds (6%).

RAB's net position decreased by \$1,332,336 in 2018 compared to the 2017 increase in net position of \$2,653,893.

RAB received no operating revenues during 2018 or 2017 due to the elimination of access charges previously charged to consumers and no grants funding.

RAB's net investment income decreased in 2018 due to the performance of the overall financial markets which primarily attributed to decreased values of equity securities held by RAB.

RAB's relay service expense decreased compared to the prior year.

Overview of the Financial Statements

These financial statements consist of two sections - Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

Basic Financial Statements

The basic financial statements present information for RAB as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Fund Net Position; and the Statement of Cash Flows.

Relay Administration Board
Management's Discussion and Analysis
December 31, 2018

Overview of the Financial Statements (continued)

Statement of Net Position

The Statement of Net Position on page 7 presents a summary of assets and liabilities with totals of each. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of RAB is improving or deteriorating.

Statement of Revenue, Expenses, and Changes in Fund Net Position

The Statement of Revenues, Expenses, and Changes in Fund Net Position on page 8 presents information which shows how RAB's net position changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

Statement of Cash Flows

The Statement of Cash Flows on page 9 presents information showing how RAB's cash changed as a result of current year operations. The Statement of Cash Flows is prepared using the direct method and includes the reconciliation of operating income to net cash provided by or used in operating activities (indirect method) as required by Governmental Accounting Standards Board (GASB) Statement 34.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 10-16 of this report.

Financial Analysis of the Entity

The condensed statements of net position consist of the following at December 31:

| | <u>2018</u> | <u>2017</u> | <u>Variance</u> | <u>% Variance</u> |
|-------------------------------------|----------------------|----------------------|-----------------------|-------------------|
| ASSETS | | | | |
| Current assets | \$ 14,200,519 | \$ 16,424,948 | \$ (2,224,429) | -13.54% |
| Noncurrent assets | <u>11,127,605</u> | <u>10,279,380</u> | <u>848,225</u> | 8.25% |
| | <u>\$ 25,328,124</u> | <u>\$ 26,704,328</u> | <u>\$ (1,376,204)</u> | -5.15% |
| LIABILITIES and NET POSITION | | | | |
| Liabilities | | | | |
| Current liabilities | \$ 143,743 | \$ 187,611 | \$ (43,868) | -23.38% |
| Noncurrent liabilities | <u>-</u> | <u>-</u> | <u>-</u> | 0.00% |
| | <u>\$ 143,743</u> | <u>\$ 187,611</u> | <u>\$ (43,868)</u> | -23.38% |
| Net Position | | | | |
| Unrestricted | <u>25,184,381</u> | <u>26,516,717</u> | <u>(1,332,336)</u> | -5.02% |
| | <u>\$ 25,328,124</u> | <u>\$ 26,704,328</u> | <u>\$ (1,376,204)</u> | -5.15% |

Relay Administration Board
Management's Discussion and Analysis
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Financial Analysis of the Entity (continued)

Current assets consist primarily of cash and investments in debt and equity securities. Noncurrent assets consist of investments in debt securities with a maturity date greater than one year. The decrease in assets resulted primarily from a decrease in the fair value of investments and a change in composition of the investment portfolio, specifically the lower ratio of equity securities to other types of securities.

All of the RAB's resources can be used for any lawful purpose consistent with the articles of incorporation which requires that funds be used for providing telecommunication relay services to the citizens of the State of Louisiana. RAB has no long-term debt obligations. Investment securities are available for liquidity as needed, but are intended to also provide a return on assets that can be used to provide relay services to the hearing and speech impaired.

The condensed statements of revenues, expenses, and changes in fund net position consist of the following for the years ended December 31:

| | <u>2018</u> | <u>2017</u> | <u>Variance</u> | <u>% Variance</u> |
|---------------------------------|----------------------|----------------------|-----------------------|-------------------|
| Operating revenues | \$ - | \$ - | \$ - | - |
| Operating expenses | <u>431,973</u> | <u>518,830</u> | <u>(86,857)</u> | -16.74% |
| Operating loss | <u>(431,973)</u> | <u>(518,830)</u> | <u>86,857</u> | -16.74% |
| Nonoperating revenues | 6,314 | 3,276,175 | (3,269,861) | -99.81% |
| Nonoperating (expenses) | <u>(906,677)</u> | <u>(103,451)</u> | <u>(803,226)</u> | 776.43% |
| | <u>(900,363)</u> | <u>3,172,724</u> | <u>(4,073,087)</u> | |
| Change in net position | (1,332,336) | 2,653,894 | (3,986,230) | -150.20% |
| Net position, beginning of year | <u>26,516,717</u> | <u>23,862,823</u> | <u>2,653,894</u> | 11.12% |
| Net position, end of year | \$ <u>25,184,381</u> | \$ <u>26,516,717</u> | \$ <u>(1,332,336)</u> | -5.02% |

RAB recognized no operating revenues during 2018 and 2017. The Louisiana Public Service Commission indefinitely suspended the 11¢ per line access fee charged to consumers effective in April 2002. Non-operating revenues decreased in 2018 by \$3,269,861 due primarily to an increase in unrealized depreciation on equity security holdings arising during 2018 as compared to 2017.

The majority of RAB's operating expenses represent the provisioning of telephone relay service by a contracted relay service provider. Total 2018 operating expenses decreased from 2017 due to the decrease in providing relay services. For 2018, non-operating expenses consist of investment losses resulting primarily from the downturn in the financial markets in 2018. RAB's investment income is subject to an excise tax at a rate expected to be 2% of net investment income.

Relay Administration Board
Management's Discussion and Analysis
December 31, 2018

Economic Factors and Next Year's Operations and Rates

As portrayed on page 7 of the financial statements, RAB has accumulated net position since its inception in 1992 which has been accumulated for the purpose of provisioning of telephone access services for an extended period. In April 2002, the Louisiana Public Service Commission eliminated the telephone access fee that has been charged to all connections throughout Louisiana and used to fund RAB's operations and net position. Thus, for 2018, RAB has no telephone access fee revenue. RAB has received no state grants or funding since 2002 and does not expect to receive state funding anytime in the near future.

RAB continues to monitor its investment portfolio and associated credit and investment risk associated with the types of securities. Since year end, overall financial markets have continued to be volatile and subject to government influences. If overall economic conditions and financial markets remain disrupted for an extended period of time, RAB's ability to meet these objectives may become doubtful.

Contacting the Relay Administration Board's Management

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Relay Administration Board's finances and to show RAB's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Louisiana Public Service Commission
P.O. Box 91154
Baton Rouge, Louisiana 70821-9154

Financial Statements

Relay Administration Board
Statement of Net Position
December 31, 2018

ASSETS

Current Assets:

| | |
|---------------------------|---------------|
| Cash and cash equivalents | \$ 948,681 |
| Investments | 13,169,681 |
| Accrued investment income | <u>82,157</u> |
| | 14,200,519 |

Noncurrent Assets:

| | |
|-------------|-----------------------------|
| Investments | <u>11,127,605</u> |
| | \$ <u><u>25,328,124</u></u> |

LIABILITIES AND NET POSITION

Current Liabilities:

| | |
|-------------------------------|---------------|
| Accounts payable | \$ 70,906 |
| Federal excise tax payable | 39,221 |
| Deferred federal excise taxes | <u>33,616</u> |
| | 143,743 |

Net Position:

| | |
|--------------|-----------------------------|
| Unrestricted | <u>25,184,381</u> |
| | \$ <u><u>25,328,124</u></u> |

See accompanying notes to financial statements.

Relay Administration Board
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year ended December 31, 2018

| | | |
|------------------------------------|----|--------------------|
| Operating Revenues | \$ | - |
| Operating Expenses: | | |
| Relay service costs | | 407,340 |
| Legal and professional | | 15,470 |
| Other operating costs | | <u>9,163</u> |
| | | 431,973 |
| Operating loss | | <u>(431,973)</u> |
| Non-Operating Revenues (Expenses): | | |
| Investment losses | | (906,677) |
| Federal excise tax benefit | | 6,314 |
| | | <u>(900,363)</u> |
| Change in net position | | <u>(1,332,336)</u> |
| Net position, beginning of year | | 26,516,717 |
| Net position, end of year | \$ | <u>25,184,381</u> |

See accompanying notes to financial statements.

Relay Administration Board
Statement of Cash Flows
For the Year ended December 31, 2018

| | |
|---|-----------------------|
| Cash Flows from Operating Activities: | |
| Cash payments to suppliers of goods and services: | |
| Relay service costs | \$ (415,572) |
| Legal and professional fees | (16,115) |
| Other operating costs | <u>(9,210)</u> |
| Net cash used in operating activities | <u>(440,897)</u> |
| Cash Flows from Investing Activities: | |
| Purchases of investments | (9,421,821) |
| Sales and maturities of investments | 9,850,633 |
| Investment income received | 494,067 |
| Federal excise taxes paid | <u>(28,373)</u> |
| Net cash provided by financing activities | <u>894,506</u> |
| Increase in cash and cash equivalents | 453,609 |
| Cash and cash equivalents, beginning of year | <u>495,072</u> |
| Cash and cash equivalents, end of year | <u>\$ 948,681</u> |
| Reconciliation of Operating Loss to | |
| Cash Flows Used In Operating Activities | |
| Operating loss | \$ (431,973) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Change in: | |
| Accounts payable | <u>(8,924)</u> |
| Net cash used in operating activities | <u>\$ (440,897)</u> |
| Supplemental Disclosure of Noncash Investing Activities | |
| Net increase in investment unrealized depreciation | \$ (2,802,231) |
| Net amortization/accretion of investments in fixed securities | (33,339) |
| Decrease in deferred federal excise taxes | <u>(56,044)</u> |
| | <u>\$ (2,891,614)</u> |

See accompanying notes to financial statements.

Relay Administration Board
Notes to Financial Statements
December 31, 2018

Nature of Operations

The Relay Administration Board ("RAB") was created as a nonprofit corporation by the Louisiana Public Service Commission, a body created by the Louisiana Constitution, as provided by OrderNumberU-17656-A pursuant to the telecommunications sections of the Americans with Disabilities Act of 1990 and other applicable regulations adopted by the Federal Communications Commission.

The board of directors is comprised of five members who serve indefinite terms at the discretion of the Louisiana Public Service Commission. The board of directors is charged with the responsibility of oversight of telephone relay services for the State of Louisiana, ensuring equal access to telecommunications services for all hearing and speech impaired citizens, and acting as a liaison between the relay service provider and the Louisiana Public Service Commission.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles.

Reporting Entity

Using the criteria in GASB Codification Section 2100, the Division of Administration, Office of Statewide Reporting and Accounting Policy has defined the governmental reporting entity to be the State of Louisiana. The Office of Statewide Reporting and Accounting Policy considers RAB to be a discrete component unit of the State of Louisiana because the state has financial accountability for fiscal matters as follows: (1) a majority of the board of directors is appointed by the State of Louisiana; (2) upon dissolution of RAB, title to all property owned by RAB shall vest in the State of Louisiana; (3) the Louisiana Public Service Commission, a commission within a department of the State of Louisiana, has the ability to modify and approve changes to the telephone access fee; and (4) the Louisiana Public Service Commission has the ability to veto, overrule, and modify decisions made by RAB.

Since RAB is a discretely presented component unit of the State of Louisiana, these financial statements follow the financial reporting framework of the primary government. The accompanying financial statements present information only as to the transactions of the programs of RAB. Annually, the State of Louisiana issues basic financial statements, which include the activity contained in the accompanying financial statements as a business-type activity. The State of Louisiana's basic financial statements are audited by the Louisiana Legislative Auditor.

Fund Accounting

For financial reporting purposes, RAB is treated as a special-purpose government engaged only in business-type activities. All activities of RAB are accounted for within a single proprietary (enterprise) fund to report on its financial position, results of operation, and cash flows. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

1. Summary of Significant Accounting Policies (continued)

Net Position

RAB has implemented GASB No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This standard provides guidance for reporting the financial statement elements of deferred outflows of resources and deferred inflows of resources. Deferred outflows represent the consumption of the government's net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period. Because deferred outflows and deferred inflows are, by definition, neither assets nor liabilities, the statement of net assets title is now referred to as the statement of net position. The statement of net position reports net position as the difference between all other elements in a statement of net position and should be displayed in three components— net investment in capital assets, restricted net position (distinguishing between major categories of restrictions), and unrestricted net position.

At December 31, 2018, all of RAB's net position was unrestricted. Unrestricted net position is the balance (deficit) of all other elements in a statement of net position remaining after net investment in capital assets and restricted net position. When both restricted and unrestricted resources are available for use, it is the RAB's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of Accounting

Basis of accounting refers to the timing of recognition of revenues and expenses in the accounts and reporting in the financial statements, regardless of the measurement focus applied. The transactions of RAB are accounted for using the accrual basis of accounting and on a flow of economic resources measurement focus where the aim is to report all inflows, outflows, and balances affecting or reflecting an entity's net position. Accordingly, revenues are recognized in the accounting period when they are earned and expenses are recognized when the related liability is incurred. Operating revenues include activities that have the characteristics of exchange transactions, such as charges for services. Transactions for which cash flows are reported as investing activities are reported as non-operating revenue. All expenses related to operating RAB are reported as operating expenses.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash includes money market accounts and all highly liquid debt instruments with original maturities of three months or less when purchased.

Investments

The deposits and investments of RAB's monies are governed by an investment policy adopted by the board of directors. Under the policy, monies not needed for immediate expenditure may be invested in (1) U. S. Government and Agency obligations, (2) certificates of deposit issued by financial institutions within the U. S. and its territories up to the maximum FDIC limit, (3) certain collateralized mortgage obligations, and (4) equity securities subject to limitations.

RAB reports its investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values as determined by published trade prices in accordance with GASB Statement No. 31 and are included in the statement of net position. Investment return includes interest, dividends, realized and unrealized gains and losses, investment fees, and net amortization/accretion of investments in fixed securities and is included in the statement of revenues, expenses, and changes in fund net position.

1. Summary of Significant Accounting Policies (continued)

Investments (continued)

Investments in equity securities, mutual funds, and debt securities with a maturity date of less than one year are classified as current assets. Noncurrent assets consist of investments in debt securities with a maturity date greater than one year.

Adoption of New Accounting Standards

The Government Accounting Standards Board ("GASB") has issued GASB Statement No. 72, Fair Value Measurement and Application. This standard addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard provides guidance for determining a fair value measurement for financial reporting purposes. This standard also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The Government Accounting Standards Board ("GASB") has issued GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Government, which supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of GASB Statement No. 76 is to identify in the context of the current governmental financial reporting environment the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the frame work for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

Tax Status

RAB is an organization exempt from federal income taxation under Section 501 (c) (3) of the Internal Revenue Code (the "Code") and is a private foundation as described in Section 509 (a) of the Code. RABs subject to federal excise taxes and it is also subject to federal and state income tax on its unrelated business taxable income. With few exceptions, RAB is no longer subject to federal or state examinations by tax authorities for the year before 2016.

RAB evaluates uncertain tax positions for more-likely-than-not sustainability. Management has concluded that as of December 31, 2018, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

2. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Relay Administration Board
Notes to Financial Statements
December 31, 2018

3. Deposits

For reporting purposes, money market funds are included as deposits. Deposits in money market funds are stated at cost, which approximates fair value. The balance of RAB's money market fund at December 31, 2018 was \$948,681. RAB's deposits in these open-end mutual funds are not exposed to custodial credit risk because its existence is not evidenced by securities that exist in physical or book entry form.

4. Investments

Beginning with the fiscal year ended December 31, 2016, the Board is required by Governmental Accounting Standards Board (GASB) 72, Fair Value Measurement and Application, to begin categorizing its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are described below:

Level 1 - unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - quoted prices for similar assets or liabilities in active markets or identical or similar assets or liabilities in inactive markets that are observable for the asset or liability.

Level 3 - inputs are unobservable and significant to the fair value measurement.

The implementation of this new statement did not change the method of measuring the Board's investments at estimated fair value as required by GASB 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools, and consisted of the following at December 31, 2018:

| <u>Type of Investment</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Fair Value</u> |
|--|----------------------|---------------------|----------------------|
| Equity securities & equity mutual funds | \$ 11,966,972 | \$ - | \$ 11,966,972 |
| Fed. Home Bank & U.S. Treasury debt securities | 6,347,190 | - | 6,347,190 |
| U.S. Government Agency debt securities | - | 1,605,165 | 1,605,165 |
| Corporate debt securities | - | 4,377,959 | 4,377,959 |
| | <u>\$ 18,314,162</u> | <u>\$ 5,983,124</u> | <u>\$ 24,297,286</u> |

Investments in U.S. Government obligations, U.S Government Agency obligations, corporate bonds, equity securities and mutual funds, are valued at the quoted market prices in the active market on which the individual securities are traded.

At December 31, 2018, investment securities of \$24,297,286 and investments reported as cash and cash equivalents of \$948,681, as presented in the Statement of Net Position, consist of the items in the following table:

Relay Administration Board
Notes to Financial Statements
December 31, 2018

4. Investments (continued)

| Description | Cost | Fair Value | % of Total | Service Credit Quality | Weighted Average Maturity |
|--|-------------------|-------------------|----------------|------------------------|---------------------------|
| BANK NEW YORK MELLON CORP FR | \$ 224,712 | \$ 151,400 | 0.60% | A3 | 0.05 |
| COMCAST CORP NEW SR GLBL NT | 151,746 | 192,628 | 0.76% | BAA1 | 0.07 |
| DIAGEO INVT CORP SR GLBL NT | 225,101 | 196,532 | 0.78% | A1 | 0.05 |
| GENERAL ELECTRIC CO NT | 308,928 | 183,578 | 0.73% | A3 | 0.06 |
| JOHNSON & JOHNSON SR GLBL NT | 191,618 | 3,069 | 0.01% | AA3 | 0.00 |
| NBCUNIVERSAL MEDIA LLC SR NT | 246,439 | 223,085 | 0.88% | AAA | 0.07 |
| PNC BK N A PITTSBURGH PA FR | 400,164 | 454,464 | 1.80% | AA | 0.14 |
| PRICELINE GRP INC SR NT | 149,738 | 242,790 | 0.96% | AAA | 0.12 |
| PUBLIC SVC ELEC GAS CO MTN FR | 250,413 | 222,806 | 0.88% | A1 | 0.01 |
| SCHWAB CHARLES CORP NEW SR NT | 299,166 | 388,700 | 1.54% | A1 | 0.20 |
| SOUTHERN CALIF EDISON CO 1ST & REF | 224,924 | 193,157 | 0.77% | BAA1 | 0.03 |
| TEXAS INSTRS INC SR NT | 405,284 | 58,280 | 0.23% | AAA | 0.01 |
| U S BK NATL ASSN CINCINNATI OHIO | 199,976 | 32,270 | 0.13% | AAA | 0.00 |
| UBS CITI COML MTG TR SER 2011 C1 | 215,483 | 289,890 | 1.15% | A2 | 0.61 |
| VENTAS RLTY LTD PARTNERSHIP SR NT | 224,406 | 394,980 | 1.56% | A1 | 0.04 |
| VISA INC SR GLBL | 401,620 | 101,871 | 0.40% | A2 | 0.03 |
| WAL MART STORES INC SR NT | 399,980 | 221,459 | 0.88% | AAA | 0.07 |
| WASTE MGMT INC DEL SR NT | 241,163 | 389,644 | 1.54% | A3 | 0.19 |
| WELLS FARGO CO MTN NT I | 305,289 | 158,979 | 0.63% | AA | 0.04 |
| WFRBS COML MTG TR SER 2013 UBS1 | 6,520 | 278,377 | 1.11% | AA | 0.61 |
| FEDERAL HOME LOAN BKS CONS BDS | 455,952 | 145,991 | 0.58% | * | 0.00 |
| US GOVERNMENT AGENCY | 852,950 | 1,605,165 | 6.36% | * | 1.70 |
| US GOVERNMENT | <u>6,160,615</u> | <u>6,201,199</u> | <u>24.56%</u> | * | 2.18 |
| Debt security totals | <u>12,542,187</u> | <u>12,330,314</u> | <u>48.84%</u> | | |
| Equity securities | 8,442,100 | 10,417,206 | 41.26% | * | |
| Equity mutual funds | 1,632,745 | 1,549,766 | 6.14% | * | |
| Total investments | <u>22,617,032</u> | <u>24,297,286</u> | <u>96.24%</u> | | |
| Money market funds | 948,681 | 948,681 | 3.76% | AAA | |
| Total investments and cash equivalents | <u>23,565,713</u> | <u>25,245,967</u> | <u>100.00%</u> | | |

* Credit quality ratings are not required for equity securities, mutual funds, U.S. govt. and govt agency securities.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, RAB will not be able to recover the value of its investments that are in the possession of an outside party. RAB does not have an investment policy for custodial credit risk. At December 31, 2018, RAB's investments in

4. Investments (continued)

Custodial Credit Risk (continued)

equity securities, equity mutual funds, and U.S. government and agency securities are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by the counterparty's trust department, but not in RAB's name.

Concentration of Credit Risk

RAB has adopted an investment policy which limits the percentage of total investments that can be invested in various categories and types of investments. Investments in equity securities are permitted to represent between 25% and 60% of the investment portfolio while fixed income securities are permitted to represent between 40% and 70% of the investment portfolio. Cash is allowed to represent between 0% and 10% of the total portfolio. RAB has also adopted a policy that limits its investments in equity securities to a maximum of 5% of its total investments in any one company unless said company comprises more than 5% of the Standard & Poor's 500 Stock Index, in which case the market value of the holding shall not exceed 10% of the equity portfolio. There are also limitations on concentrations in categories of equity investment types. In addition, RAB has set a limit of 5% of its investments in fixed income securities that can be held in the fixed income securities of any single issuer, exclusive of the U.S. Government securities and federal agency securities guaranteed by the U.S. Government. At December 31, 2018, RAB was in compliance with its concentration of credit risk policy.

Credit Risk

RAB has adopted a policy that limits its investments of any single fixed income security to a minimum quality rating of "BBB-" by Standard and Poor's (S&P) and "Baa3" by Moody's Investors Service (Moody's) at the time of purchase, with the exception of mortgage backed securities which be rated AAA or better. Additionally, the average quality rating of the fixed income portfolio shall be "A" for S&P and "A2" for Moody's. Bonds rated "BBB" by S&P and "Baa" by Moody's shall not exceed 10% of the total market value of the fixed income portfolio. If the rating of any fixed income security should fall below either of these credit quality rating levels, the investment manager must notify RAB to seek instructions regarding the remediation of the portfolio. At December 31, 2018, RAB was in compliance with its credit quality policy.

Interest Rate Risk

For an investment, interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Investments held for longer periods are generally subject to increased risk of value fluctuations due to interest rate changes. RAB's policy is to measure and monitor the weighted average maturity and duration of the fixed income securities portfolio in order to manage exposure to interest rate risk. This includes the weighted average maturity and duration of the total fixed income portfolio, individual securities, as well as categories of securities held by RAB.

Investment Return

The schedule on the following page summarizes investment return as presented in the Statement of Revenues, Expenses and Changes in Fund Net Position for the year ended December 31, 2018:

Relay Administration Board
Notes to Financial Statements
December 31, 2018

4. Investments (continued)

Investment Return (continued)

| | |
|---|---------------------|
| Interest and dividend income | \$ 571,051 |
| Net realized gains on sale of investments | 1,423,347 |
| Net unrealized depreciation on investments | <u>(2,802,230)</u> |
| | (807,832) |
| Less: investment fees | (65,510) |
| Less: net amortization/accretion of investments in fixed securities | <u>(33,335)</u> |
| | \$ <u>(906,677)</u> |

The net realized gain on sale of investments disclosed above is independent of the calculation of the net unrealized depreciation on investments disclosed above. The net realized gain on investments that had been held in more than one fiscal period and sold in the current year were included as a change in the fair value investments reported in the prior year and the current year.

5. Excise Tax Requirements

RAB is exempt from federal income taxation under Section 501 (c) (3) of the Code, but is subject up to a 2% (1% if certain criteria are met) federal excise tax on net investment income (including interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income) as defined in the Code. RAB continually evaluates the enacted and expected excise tax rates expected to be incurred based on investment performances and expectations. RAB estimates excise taxes at a rate of 2%. At December 31, 2018, Federal excise taxes payable of \$39,221 have been recorded as a current liability. The federal excise taxes generated by these investments reflect the amount actually self-assessed and reported to the IRS. At December 31, 2018, RAB has also recognized a deferred tax liability of \$33,616 representing the estimated excise taxes related to the net appreciation of the fair value of investment securities in excess of their income tax basis. These deferred tax would become payable upon transactions to realize these gains.

6. Funding Sources

The Louisiana Public Service Commission issued Order No. U-17656-B directing local exchange carriers to collect an access fee of eleven cent (\$0.11) per access line and remit those funds to RAB to fund telephone relay services of the State of Louisiana. Effective April 2002, the Louisiana Public Service Commission eliminated the collection of the access line fee. As a result, RAB's operations are now being funded from existing assets and investment earnings.

7. Board Member Compensation

Although compensation to board members is authorized by RAB's by-laws, no compensation was paid to board members during 2018.

8. Risk Management

RAB is exposed to risk of loss related to errors and omissions of the Board of Directors. Commercial insurance has been obtained to cover these risks.

Supplementary Information

Relay Administration Board
Schedule of Compensation, Benefits and Other Payments to the Agency Head
For the Year Ended December 31, 2018

Agency Head: Karen Babineaux

Position: Board President

| | |
|---------------------|-----------------|
| Mileage | \$ 331 |
| Travel (conference) | <u>1,394</u> |
| | <u>\$ 1,725</u> |

See the accompanying independent auditor's report.

Other Reporting Required by Governmental Auditing Standards



**Independent Auditor's Report 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
Relay Administration Board
Baton Rouge, Louisiana

We have audited, in accordance with the 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 the business-type activities of the Relay Administration Board, a component unit of the State of Louisiana, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Relay Administration Board's basic financial statements and have issued our report thereon dated June 30, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Relay Administration Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Relay Administration Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Relay Administration Board's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Relay Administration Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Management's Response as items 2018-001, 2018-002, and 2018-003.

The Relay Administration Board's Responses to the Findings

The Relay Administration Board's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Management's Response. Although we have included management's written response to our comments, such responses have not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Hienz & Macaluso, LLC

Metairie, Louisiana

June 30, 2019

Relay Administration Board
Schedule of Findings and Management Responses
For the Year Ended December 31, 2018

A. Summary of Auditor's Results

| | |
|---|-----|
| a. Financial Statements | |
| Type of auditor's report issued: Unmodified | |
| b. Internal control over financial reporting: | |
| Material weaknesses identified: | No |
| Significant deficiencies identified not considered to be material weaknesses: | No |
| c. Noncompliance material to financial statements noted: | Yes |
| d. Management letter issued | No |

B. Findings in Accordance with *Government Auditing Standards*

Compliance with Louisiana State Statutes and Laws:

2018-001 Deposits and investments did not comply with Louisiana State law

Condition:

At December 31, 2018, RAB had investments consisting of \$948,681 in a money market fund, \$6,201,199 in U.S. Treasury notes, \$1,751,156 in U.S. government agency securities, \$4,377,959 in corporate debt securities, \$10,417,206 in equity securities, and \$1,549,766 in equity mutual funds.

Criteria:

Louisiana Revised Statutes allow RAB to invest monies under their control and not on deposit in the State Treasury in: (a) time certificates of deposit of state banks organized under the laws of Louisiana, (b) national banks having their principal office in the State of Louisiana, (c) in savings accounts or in shares of savings and loan associations, (d) and savings banks and in share accounts and share certificate accounts of federally or state chartered credit unions.

Cause:

The finding noted occurred as a result of RAB adopting an investment policy that does not align with Louisiana's revised statutes.

Effect:

Failure to adhere to state law could result in RAB's monies not being properly maintained and allocated.

Recommendation:

We recommend RAB to identify all applicable state laws and regulations to develop policies and procedures to ensure compliance with those laws and regulations. Funds in the control of RAB should be invested in accordance with Louisiana Revised Statute 49:327(C) (1) (a).

Relay Administration Board
Schedule of Findings and Management Responses
For the Year Ended December 31, 2018

Management's Response to 2018-001

RAB does not concur with the proposed finding that it did not comply with all applicable state laws and regulations governing the deposit, investment, or disbursement of public funds. RAB believes the proposed finding appears to be based on an assumption that RAB falls within the term "state agencies" for purposes of LA R.S. 49 327(C)(1). The term "state agencies" is not actually defined in that statute. No authoritative tribunal or body has made a binding determination that RAB fell or falls within the category of "state agencies" for purposes of LA R.S. 49 327(C)(1). Hence, RAB has no basis to conclude that the cited statute is applicable to those funds.

Second, this proposed finding appears to be based on an assumption that RAB was or is a "state agency" for purposes of LA R.S. 39 372(A)(1). The term "state agency" is not actually defined in that statute, except by mention of Article VII, Section 9(A) of the Louisiana Constitution of 1974. That constitutional provision does not actually define "state agency" and does not purport to define "state agency." No authoritative tribunal or body has made a binding determination that RAB was or is a "state agency" for purposes of either LA R.S. 39 372(A)(1) or Article VII, Section 9(A) of the Louisiana Constitution of 1974. If the constitutional article is applicable to RAB (which at this time has yet to be determined), paragraph (1) of Section 9(A) of Article VII states that money received by a state agency need not be deposited in the State treasury when it has been received "as a result of grants or donations or other forms of assistance when the terms and conditions thereof or of agreements pertaining thereto require otherwise."

As noted by both RAB (in prior discussions with the Office of the Legislative Auditor) and the Attorney General in his Opinion No 03-0081 page 3, money received by RAB from the Louisiana Commission for the Deaf (presumably arising from the \$0.05 tax ultimately collected by the Louisiana Commission for the Deaf) was required by a series of contracts between RAB and the Louisiana Commission for the Deaf to be used solely for the purpose of providing telecommunications relay services. The Attorney General also concluded that the Louisiana Commission for the Deaf "has contributed voluntarily to help fund and create the telecommunications relay services" Louisiana Attorney General Opinion No 03-0081, page 4. The money arising from the monthly \$0.11 telephone access line charge, which was certainly a form of assistance (for the recovery of intrastate telecommunications relay services costs from telephone ratepayers as mandated by the FCC) received by the local exchange carriers from telephone ratepayers and which was collected by the Louisiana Public Service Commission and turned over by the Louisiana Public Service Commission to RAB, was likewise dedicated solely to the provision of the telecommunications relay services.

The Attorney General in Opinion No 03-0081, page 3, notes that the provision of telecommunications relay services is federally mandated and is funded (in part) by the \$0.11 rate fee. Any failure of RAB to use such grants, donations and other forms of assistance from the Louisiana Commission for the Deaf and Louisiana telephone ratepayers in compliance with those terms, conditions and agreements, namely, the utilization of the funds for the provision of telecommunications relay services, would violate the representations made to telephone ratepayers by the Louisiana Public Service Commission, RAB's contractual obligations to the Louisiana Commission for the Deaf and the mandates of federal law and regulation.

In addition, the monthly \$0.11 telephone access line charge was not a tax, but rather a telephone line access charge. If, as the Office of the Legislative Auditor suggests, the Louisiana Public

Relay Administration Board
Schedule of Findings and Management Responses
For the Year Ended December 31, 2018

Management's Response to 2018-001 (continued)

Service Commission could not impose the \$0.11 charge for telecommunications relay services, or such charge represents an "overcharge" for telecommunications relay services, which RAB denies, the resulting funds in their entirety likely belong either to Louisiana telephone ratepayers or to the local exchange carriers, and would have to be refunded pursuant to applicable state laws, regulations and jurisprudence relating to utility regulation, the jurisdiction of which lies solely with the Louisiana Public Service Commission. Under those circumstances, any alleged requirement that the funds be deposited into the State treasury without constitutional or statutory protections ensuring use of the funds only for or in support of the provision of telecommunications relay services would cause a wrongful confiscation of those funds by the State of Louisiana or its acting instrumentality and would constitute an unconstitutional taking (under both the federal and Louisiana constitutions) of property from Louisiana telephone ratepayers or the local exchange carriers, thereby subjecting the State of Louisiana and the acting instrumentality to legal action

Third, except for earnings on RAB's investments, which earnings it has used to pay for telecommunications relay services for the hearing-impaired and speech-impaired community in Louisiana, RAB has received no significant funds from any source for several years.

Fourth, RAB has voluntarily made its books and records, including any and all banking and checking records, available for inspection and audit by the Office of the Legislative Auditor. As a result, for a number of years the Office of the Legislative Auditor has been fully aware of the deposits, investments and disbursements of RAB's funds.

2018-002 Funds were not deposited into the state treasury

Condition:

RAB did not deposit its funds into the state treasury, as required by the Louisiana Constitution and Revised Statutes.

Criteria:

Article VII, Section 9(A) of the Louisiana Constitution and Louisiana Revised Statute 49:308 require that all monies received by any state board, agency, or commission be deposited immediately upon receipt into the state treasury.

Cause:

The finding noted occurred as a result of RAB adopting an investment policy that does not align with Louisiana's revised statutes.

Effect:

Failure to adhere to state law could result in RAB's monies not being properly maintained and allocated.

Recommendation:

We recommend RAB to identify all applicable state laws and regulations to develop policies and procedures to ensure compliance with those laws and regulations. RAB should remit all funds collected to the state treasury for deposit.

Relay Administration Board
Schedule of Findings and Management Responses
For the Year Ended December 31, 2018

Management's Response to 2018-002

RAB does not concur with the proposed finding that RAB was required to deposit funds into the State treasury. As noted above, for the provision of telecommunications relay services, RAB (1) accepted grants, donations or other forms of assistance, pursuant to certain contractual requirements, from the Louisiana Commission for the Deaf and (2) exercised control over funds collected from the monthly \$0.11 telephone access line charge by the local exchange carriers and transferred by the local exchange carriers, by directive of the Louisiana Public Service Commission in compliance with FCC requirements, to RAB's accounts. The funds from the Louisiana Commission for the Deaf were generated by action of the Louisiana legislature (and not RAB) in imposing a monthly \$0.05 tax (dedicated to purposes determined by the Louisiana Commission for the Deaf) on telephone lines. The monthly \$0.11 telephone access line charge arose through action of the Louisiana Public Service Commission in requiring that the charge be included on telephone bills, again to satisfy FCC requirements. RAB did not "generate" the resulting funds received as donations from the Louisiana Commission for the Deaf or as a result of telephone bill charges.

This proposed finding also appears predicated on an assumption that RAB was or is a "state agency" for purposes of LA R.S. 39 372(A)(1). The term "state agency" is not actually defined in that statute, except by reference in LA R.S. 39 372(A)(2) to Article VII, Section 9(A) of the Louisiana Constitution of 1974. That constitutional provision does not actually, or even purport to, define "state agency." No authoritative tribunal or body has made a binding determination that RAB was or is a "state agency" for purposes of either LA R.S. 39 372(A)(1) or Article VII, Section 9(A) of the Louisiana Constitution of 1974.

If the constitutional article is applicable to RAB (which at this time has yet to be determined), paragraph (I) of Section 9(A) of Article VII states that money received by a state agency need not be deposited in the state treasury when it has been received "as a result of grants or donations or other forms of assistance when the terms and conditions thereof or of agreements pertaining thereto require otherwise." As noted by both RAB (in prior discussions with the Office of the Legislative Auditor), and the Attorney General in his Opinion No 03-0081 at page 3, money received by RAB from the Louisiana Commission for the Deaf (presumably arising from the \$0.05 tax ultimately collected by the Louisiana Commission for the Deaf) was required by a series of contracts between RAB and the Louisiana Commission for the Deaf to be used solely for the purpose of providing telecommunications relay services. The Attorney General also concluded that the Louisiana Commission for the Deaf "has contributed voluntarily to help fund and create the telecommunications relay service" Louisiana Attorney General Opinion No 03-0081, p 4.

The money arising from the monthly \$0.11 telephone access line charge, which was certainly a form of telecommunications relay services cost recovery received by the local exchange carriers from telephone ratepayers and turned over, by directive of the Louisiana Public Service Commission in compliance with FCC requirements, to RAB's accounts, was likewise dedicated solely to the provision of the telecommunications relay services. The Attorney General in Opinion No 03-0081, page 3, notes that the provision of telecommunications relay services is federally mandated and is funded (in part) by the \$0.11 "rate fee." Any failure of RAB to use such grants, donations and other forms of assistance from the Louisiana Commission for the Deaf and Louisiana telephone ratepayers in compliance with those terms, conditions and agreements, namely, the utilization of the funds for the provision of telecommunications relay services, would violate the representations made to telephone ratepayers by the Louisiana Public Service

Relay Administration Board
Schedule of Findings and Management Responses
For the Year Ended December 31, 2018

Management's Response to 2018-002 (continued)

Commission, RAB's contractual obligations to the Louisiana Commission for the Deaf and the State's legal duty to comply with federal law and regulation, particularly the Americans with Disabilities Act.

Finally, the monthly \$0.11 telephone access line charge was not a tax, but rather a telephone line access charge. If, as the Office of the Legislative Auditor suggests the Louisiana Public Service Commission could not impose the \$0.11 charge for telecommunications relay services or such charge represents an "overcharge" for telecommunications relay services, the resulting funds in their entirety belong to the Louisiana telephone ratepayers and must be refunded pursuant to applicable state laws, regulations and jurisprudence relating to utility regulation. Under those circumstances, any alleged requirement that the funds be deposited into the State treasury without constitutional or statutory protections ensuring use of the funds only for the provision of telecommunications relay services would cause a wrongful confiscation of those funds by the State of Louisiana or its acting instrumentality and would constitute an unconstitutional taking (under both the federal and Louisiana constitutions) of property from Louisiana telephone ratepayers, thereby subjecting the State of Louisiana and the acting instrumentality to legal action. Except for earnings on RAB's investments, which earnings it has used to pay for telecommunications relay services for the hearing-impaired and speech-impaired community in Louisiana, RAB has received no significant funds from any source for several years. Moreover, RAB has voluntarily made its books and records, including any and all banking and checking records, available for inspection and audit by Office of the Legislative Auditor. As a result, for a number of years the Office of the Legislative Auditor has been fully aware of the deposits, investments and disbursements of RAB's funds.

2018-003 Funds were expensed without proper appropriation

Condition:

RAB did not expend funds in accordance with an annual appropriation by the legislature.

Criteria:

Article VII, Section 10(D) of the Louisiana Constitution requires that money shall be drawn from the state treasury only pursuant to an appropriation made in accordance with law.

Cause:

The finding occurred as a result of operating expenses being paid directly from RAB's money market fund by the financial institution's trust department.

Effect:

Failure to adhere to state law could result in RAB's monies not being properly maintained and allocated.

Recommendation:

We recommend RAB to identify all applicable state laws and regulations to develop policies and procedures to ensure compliance with those laws and regulations. No funds should be expended except in the amounts appropriated each year by the legislature.

Relay Administration Board
Schedule of Findings and Management Responses
For the Year Ended December 31, 2018

Management's Response to 2018-003

RAB does not concur with the proposed finding that it did not expend funds in accordance with "an annual appropriation by the legislature." The proposed finding assumes that the funds in question have been deposited, or are required to be deposited, into the State treasury and further assumes that RAB is some form of "state agency" responsible for "appropriations." In addition, the proposed finding completely ignores the fact that the funds cannot be used for purposes not directly related to telecommunications relay services. An alternative use would be a wrongful confiscation of those funds by the State of Louisiana or its acting instrumentality and therefore would constitute an unconstitutional taking (under both the federal and Louisiana constitutions) of property from Louisiana telephone ratepayers, thereby subjecting the State of Louisiana and the acting instrumentality to legal action.

As a result, RAB cannot concur with the proposed findings without resolution by an authoritative tribunal or body of the applicability of certain statutes to the operations of RAB. Furthermore, for the same reason, no corrective action can be taken by RAB at this time.

Relay Administration Board
Summary Schedule of Prior Year Findings
For the Year Ended December 31, 2018

Findings in Accordance with *Government Auditing Standards*

Compliance with Louisiana State Statutes and Laws:

2017-01 Deposits and investments did not comply with Louisiana State law

Condition:

At December 31, 2017, RAB had investments consisting of \$495,072 in a money market fund, \$4,348,252 in U.S. Treasury notes, \$1,277,277 in U.S. government and agency securities, \$5,213,705 in corporate debt securities, \$13,772,195 in common stocks, and \$1,520,540 in mutual funds.

Recommendation:

The predecessor auditor recommended RAB to identify all applicable state laws and regulations to develop policies and procedures to ensure compliance with those laws and regulations. Funds in the control of RAB should be invested in accordance with Louisiana Revised Statute 49:327(C) (1) (a).

Current Status: Unresolved. See item 2018-001.

2017-02 Funds were not deposited into the state treasury

Condition:

RAB did not deposit its funds into the state treasury, as required by the Louisiana Constitution and Revised Statutes.

Recommendation:

The predecessor auditor recommended RAB to identify all applicable state laws and regulations to develop policies and procedures to ensure compliance with those laws and regulations. RAB should remit all funds collected to the state treasury for deposit.

Current Status: Unresolved. See item 2018-002.

2017-03 Funds were expended without proper appropriation

Condition:

RAB did not expend funds in accordance with an annual appropriation by the legislature.

Recommendation:

The predecessor auditor recommended RAB to identify all applicable state laws and regulations to develop policies and procedures to ensure compliance with those laws and regulations. No funds should be expended except in the amounts appropriated each year by the legislature.

Current Status: Unresolved. See item 2018-003.