

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

**INTERNATIONAL TELECOMMUNICATIONS  
SATELLITE ORGANIZATION**

JULY 18, 2009

International Telecommunications Satellite Organization

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## INDEPENDENT AUDITORS' REPORT

To the Assembly of Parties  
International Telecommunications Satellite Organization

We have audited the accompanying statement of assets, liabilities and funding capital of International Telecommunications Satellite Organization (ITSO or the Organization) as of July 18, 2009, and the related statements of revenue and expenses, balance of funding capital, and cash flows for the period July 1, 2008 through July 18, 2009 (date of expiration of the Director General's term). These financial statements are the responsibility of the Organization's executive organ. 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.

These financial statements were prepared in conformity with the accounting principles used by INTELSAT prior to Restructuring, and are permitted by the treaty Agreement of the International Telecommunications Satellite Organization (see note 2). The accounting and presentation of the financial statements are based primarily on the ITSO budget for fiscal year 2009 that was prepared under the Director General's authority from the 32nd Assembly of Parties and the ITSO Agreement. As such, ITSO's accounting principles utilize a comprehensive basis of accounting and differ from US GAAP (Generally Accepted Accounting Principles), as described in note 3.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Telecommunications Satellite Organization as of July 18, 2009, and the results of its operations, balance of funding capital and its cash flows for the July 1, 2008 through July 18, 2009 (date of expiration of the Director General's term), in conformity with the accounting principles of the Organization, as described in note 3.

Vienna, Virginia  
September 23, 2009

International Telecommunications Satellite Organization

STATEMENT OF ASSETS, LIABILITIES AND FUNDING CAPITAL

July 18, 2009

ASSETS

|   |                     |
|---|---------------------|
| Cash and cash equivalents   | \$ 48,355           |
| Cash and cash equivalents - restricted                              | 210,449             |
| Funding agreement contract  | 6,284,083           |
| Prepaid expenses  | 13,444              |
| Property and equipment, net of accumulated depreciation of \$33,074 | 16,022              |
| Deposits  | 12,000              |
|   | <u>6,584,353</u>    |
|   | <u>\$ 6,584,353</u> |

LIABILITIES AND FUNDING CAPITAL

LIABILITIES

|  |                |
|--|----------------|
| Accounts payable and accrued expenses          | \$ 128,570     |
| Deferred revenue on funding agreement contract | 377,669        |
|  | <u>506,239</u> |
| Total liabilities                              | 506,239        |

COMMITMENTS

-

FUNDING CAPITAL

6,078,114

\$ 6,584,353

See notes to financial statements

International Telecommunications Satellite Organization

STATEMENT OF REVENUE AND EXPENSES

For the period July 1, 2008 through  
July 18, 2009 (date of expiration of the Director General's term)

REVENUE

|  |                  |
|--|------------------|
| Principal maturities on funding agreement contract | \$ 1,146,944     |
| Interest received on funding agreement contract    | 452,175          |
| Interest earned on cash reserves                   | <u>6,917</u>     |
| Total revenue                                      | <u>1,606,036</u> |

EXPENSES

|                                    |                            |
|------------------------------------|----------------------------|
| Staff expenses                     | 876,318                    |
| Office expenses                    | 110,322                    |
| Professional fees                  | 313,309                    |
| Information technology development | 26,911                     |
| Travel and hospitality             | 176,527                    |
| Meetings                           | 621,186                    |
| Depreciation                       | <u>2,987</u>               |
| Total expenses                     | <u>2,127,560</u>           |
| Excess of expenses over revenue    | <u><u>\$ (521,524)</u></u> |

See notes to financial statements

International Telecommunications Satellite Organization

STATEMENT OF BALANCE OF FUNDING CAPITAL

For the period July 1, 2008 through  
July 18, 2009 (date of expiration of the Director General's term)

|  |                     |
|--|---------------------|
| Balance at June 30, 2008   | \$ 7,745,420        |
| Principal maturities on funding agreement contract recognized as revenue | (1,146,944)         |
| Interest earned on the Contingency Fund                                  | 1,162               |
| Excess of expenses over revenue  | <u>(521,524)</u>    |
| Balance at July 18, 2009   | <u>\$ 6,078,114</u> |

See notes to financial statements

International Telecommunications Satellite Organization

STATEMENT OF CASH FLOWS

For the period July 1, 2008 through  
July 18, 2009 (date of expiration of the Director General's term)

|   |                         |
|---|-------------------------|
| Cash flows from operating activities  |                         |
| Excess of expenses over revenue   | \$ (521,524)            |
| Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities |                         |
| Depreciation  | 2,987                   |
| Decrease in prepaid expenses  | 87,921                  |
| Increase in accounts payable and accrued expenses   | <u>21,401</u>           |
| Net cash used in operating activities   | <u>(409,215)</u>        |
| Cash flows from investing activities  |                         |
| Purchase of fixed assets  | <u>(13,772)</u>         |
| Net cash used in investing activities   | <u>(13,772)</u>         |
| NET DECREASE IN CASH AND CASH EQUIVALENTS   | (422,987)               |
| Cash and cash equivalents, beginning of period  | <u>471,342</u>          |
| Cash and cash equivalents, end of period  | <u><u>\$ 48,355</u></u> |
| Significant noncash investing and financing activities  |                         |
| Decrease in interest accrued on funding agreement contract  | <u><u>\$ 70,832</u></u> |

See notes to financial statements

International Telecommunications Satellite Organization

NOTES TO FINANCIAL STATEMENTS

July 18, 2009

**NOTE 1 - TERMS OF REFERENCE**

The appointment of the firm of Reznick Group as ITSO's external auditor was approved by the 27<sup>th</sup> Assembly of Parties in June 2002, in accordance with Article IX (d) (xiii) of the amended Agreement. (Document AP-27-17 W/06/02 "Appointment of Auditor of Expenditures and Accounts of ITSO.")

**NOTE 2 - ORGANIZATION**

The International Telecommunications Satellite Organization (ITSO or the Organization) is an intergovernmental organization created on an interim basis in 1964 in order to establish and operate a global satellite system that would provide, on a commercial basis, the space segment required for international public telecommunications services. The Organization formally was established in 1973 upon entry into force of the intergovernmental treaty agreement (the Agreement Relating to the International Telecommunications Satellite Organization or the Agreement). Until July 18, 2001, the Organization operated as an intergovernmental organization known as INTELSAT, the world's first commercial satellite operator. On July 18, 2001, the Organization was restructured into two separate entities (the Restructuring): (i) a new private Bermuda-registered company, Intelsat, Ltd., that continues to provide commercial satellite telecommunications services, and (ii) the continuing intergovernmental organization, now abbreviated as ITSO. ITSO supervises and monitors the private company to ensure that it meets certain public service obligations, including obligations to "lifeline" customers of Intelsat, Ltd.

ITSO retained certain financial assets pursuant to the Restructuring arrangement, which are to be used to finance its operations through the initial 12 year term after Restructuring. The fiscal year (FY) 2002 budget was the first budget for ITSO after Restructuring and was based on INTELSAT practices. During FY04, ITSO revised its methodology (INTELSAT practice) of determining the income tax allowance for U.S. employees with no impact on non-U.S. employee wages.

At the 32<sup>nd</sup> Assembly of Parties in October 2008, a new Director General was elected.

In accordance with the treaty Agreement, ITSO maintains its headquarters in Washington, DC.

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

As the continuing Organization, ITSO continues to prepare its financial statements on the same basis as the INTELSAT practices, including continued use of an accrual basis of accounting that is consistent with the principles permitted by the amended Agreement. The primary difference between this accrual basis and US GAAP (the Generally Accepted Accounting Principles used by companies based in the United States) is the method of recognition of revenue. ITSO recognizes the receipt of principal maturities on the Funding Agreement Contract as revenue. All amounts included in the financial statements and notes to the financial statements are stated in U.S. dollars.



International Telecommunications Satellite Organization

NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 18, 2009

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fiscal Year and Expiration of the Director General's Term

The Organization operates on a fiscal year that ends on June 30. The financial statements have been prepared as of July 18, 2009 and for the period July 1, 2008 through July 18, 2009, the date in which the term of the then Director General expired.

Use of Estimates

The preparation of financial statements requires ITSO's executive organ to make estimates and assumptions that affect the reported amounts of assets and liabilities, reported amounts of revenues and expenses, and disclosure of contingent assets and liabilities on the date of the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents. The Organization maintains cash and cash equivalents in financial institutions in amounts that exceed federal and private insurance limits.

Cash and Cash Equivalents - Restricted

Cash and cash equivalents - restricted represents the Contingency Fund (see note 5) and includes amounts set aside for specific purposes in accordance with the Agreement.

Funding Agreement Contract

The Funding Agreement Contract that was set up with The Prudential Insurance Company of America prior to Restructuring, in order to fund the operating expenses of the Organization, are stated at the present value of the future cash receipts due under the related agreements discounted at the weighted average intrinsic rate. Note 5 provides additional information about the Funding Agreement Contract. Changes in carrying amounts resulting from periodic interest accretion are recorded as deferred revenue on the accompanying financial statements and recognized as revenue upon receipt of annual annuity payments due under the contracts. The Organization has concluded that it is not practicable to determine the fair value of the Funding Agreement Contract due to the nature of the Contract.

Property and Equipment

Office furniture and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which is generally five years.

Revenue Recognition

Revenue is comprised of amounts maturing annually under the Funding Agreement Contract and reserve funds from the prior year, which are reclassified from Funding Capital, interest earned on cash and cash equivalents.

International Telecommunications Satellite Organization

NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 18, 2009

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contingency Fund

Legal expenses paid out of the Contingency Fund represent unbudgeted expenses incurred during the fiscal year which are paid out of cash and cash equivalents - restricted and not included in the accompanying statement of revenue and expenses. There were no payments from the Contingency Fund during the period ended July 18, 2009.

Income Taxes

Under the terms of the Headquarters Agreement, dated November 24, 1976, between the Government of the United States and the Organization, ITSO is exempt from United States and District of Columbia taxation.

**NOTE 4 - FAIR VALUE MEASUREMENTS**

On July 1, 2008, the Organization adopted SFAS No. 157, *Fair Value Measurements* for its financial assets and liabilities. The Organization's adoption of SFAS No. 157 did not have a material impact on its financial position, results of operations or liquidity. In accordance with FASB FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), the Organization elected to defer until July 1, 2009 the adoption of SFAS No. 157 for all nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of SFAS No. 157 for those assets and liabilities within the scope of FSP 157-2 is not expected to have a material impact on the Organization's financial statements.

**NOTE 5 - FUNDING AGREEMENT CONTRACT**

The 25<sup>th</sup> Assembly of Parties in November 2000 decided that ITSO's annual financial requirements will be met from the returns of a Funding Agreement Contract with The Prudential Insurance Company (Prudential) which, for administrative reasons, was established by INTELSAT prior to privatization. The Funding Agreement Contract between ITSO and Prudential should guarantee the annual funding for ITSO, growing from \$1.3 million in 2001 to \$1.8 million in 2012.

Principal and interest received under the Funding Agreement Contract will be used for the annual operational expenses of ITSO. The Funding Agreement Contract is stated on the accompanying Statement of Assets, Liabilities and Funding Capital at the present value of the future cash receipts due under the related agreements discounted at the weighted average intrinsic rate of 6.01%.

The 25<sup>th</sup> Assembly of Parties also decided that, in the event that ITSO continues beyond 12 years, Intelsat, Ltd. will annually fund ITSO in an amount to be negotiated, in good faith, by the Director General of ITSO and the Chief Executive Officer of Intelsat, Ltd., based upon the principles and financial expenditures of ITSO during the initial 12 year period. The annual funding of ITSO by Intelsat, Ltd. after the twelfth year will not exceed \$1.8 million (Year 2013 dollars). Article 14 of the Public Services Agreement between ITSO and Intelsat, Ltd. incorporated the Assembly of Parties decision regarding the Funding Agreement Contract.

International Telecommunications Satellite Organization  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 18, 2009

**NOTE 5 - FUNDING AGREEMENT CONTRACT (Continued)**

Payments under the Funding Agreement Contract, for the financial requirements of ITSO, are due annually on each July 18, through the year 2012 as follows:

|                                       |                            |
|---------------------------------------|----------------------------|
| 2009                                  | \$ 1,647,134               |
| 2010                                  | 1,696,591                  |
| 2011                                  | 1,747,533                  |
| 2012                                  | <u>1,805,000</u>           |
|                                       | 6,896,258                  |
| Less: Amount representing<br>interest | <u>612,175</u>             |
|                                       | <u><u>\$ 6,284,083</u></u> |

**NOTE 6 - CONTINGENCY FUND**

As decided by the 25th Assembly of Parties in November 2000, an additional contingency fund was established prior to the date of Restructuring in July 2001, to cover possible disputes between ITSO and INTELSAT, Ltd. with capital of \$500,000. In June 2004, the 28th Assembly of Parties decided that the Director General shall be delegated the authority to access and use the contingency fund in arbitration proceedings between ITSO and Intelsat, Ltd., pursuant to Article X(h) of the amended Agreement, having first consulted with the Advisory Committee. Information concerning the access and use of the contingency fund should immediately be reported to the Parties and be presented to the next meeting, either Ordinary or Extraordinary, of the Assembly of Parties for its consideration and action.

In the event ITSO continues beyond 12 years and ITSO's contingency fund at that time is below the initial \$500,000 level, then the Assembly decided that Intelsat, Ltd. shall contribute an additional amount to bring the fund to its original level of \$500,000, plus the amount necessary to adjust this fund to its 2013 inflation adjusted level.

Article 14 of the Public Services Agreement between ITSO and Intelsat, Ltd. incorporated the Assembly of Parties decision regarding the contingency fund.

**NOTE 7 - COMMITMENTS**

Office Space Agreement, Leases and Operating Expenses

The Organization entered into an Office Space Agreement with Intelsat Global Service Corporation, a subsidiary of Intelsat, Ltd., for office space in the Headquarters Building in Washington, D.C, dated July 2001. Under this Agreement, the first payment became effective in May 2002 when ITSO moved into its permanent office space in the Headquarters Building. The Agreement subsequently was amended in September 2002, August 2004, and October 2007 whereby ITSO pays a proportional share of the building's monthly operating expenses, subject to an annual escalation clause of two percent. The term of the Office Space Agreement

International Telecommunications Satellite Organization  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 18, 2009

**NOTE 7 - COMMITMENTS (Continued)**

Office Space Agreement, Leases and Operating Expenses (Continued)

terminates on July 18, 2010. Under Article 6 of the Office Space Agreement (Option to Renew), ITSO has the option to renew this agreement for additional periods of three years each.

As part of the Restructuring, Intelsat provided office furniture and some office equipment to ITSO when it moved into its current office space in the Headquarters Building in April 2002.

The Organization also has entered into leases for certain office expenses and a vehicle, and has certain additional operating expenses with Intelsat (i.e., expenses associated with support for meetings in the Headquarters Building, etc.).

Minimum annual payments due under the Office Space Agreement and operating leases for each of the next three fiscal years are as follows:

|      |    |        |
|------|----|--------|
| 2010 | \$ | 35,589 |
| 2011 |    | 8,067  |
| 2012 |    | 2,730  |
|      |    | <hr/>  |
|      | \$ | 46,386 |
|      |    | <hr/>  |

Expenses incurred under the Office Space Agreement, lease agreements and operating expenses during the period ended July 18, 2009 totaled \$38,469.

ITSO Outsourcing of Tasks

In order to conserve funding and due to its operations, the Director General of ITSO has decided to outsource many tasks and functions to external consultants that traditionally had been performed by permanent staff in INTELSAT. These external consultants include, but are not limited to, the tasks and functions of finance, accounting and bookkeeping; payroll and tax calculations; human resource issues; computer and website; and language translation and interpretation. This outsourcing to external consultants has enabled the Director General to conserve resources.

In addition, where financially prudent, the Director General has engaged temporary staff to assist in certain mandated functions of the Organization. This includes use of temporary staff, in particular, to assist with certain meetings organized by the executive organ, including the Assembly of Party and Advisory Committee meetings.

External consultants and temporary staff have been engaged by ITSO under the standard terms and conditions contract utilized by INTELSAT, as an intergovernmental organization.

International Telecommunications Satellite Organization  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 18, 2009

**NOTE 7 - COMMITMENTS (Continued)**

ITSO Staff Benefits

As the continuation of the intergovernmental organization, ITSO attempted to model its staff benefits on those of the INTELSAT organization. However, the small size of ITSO's permanent staff made it extremely difficult to negotiate similar benefits for the intergovernmental organization. Moreover, the cost of establishing a Pension Plan similar to the plan in place with the INTELSAT organization was not possible, and alternative benefits needed to be provided.

**NOTE 8 - SUBSEQUENT EVENT**

On September 19, 2009, ITSO terminated its auto lease agreement that was set to expire in July 2010 and entered into a new 4 year lease agreement. Minimum annual payments due under the new auto lease agreement will be as follows:

|      |    |        |
|------|----|--------|
| 2010 | \$ | 9,207  |
| 2011 |    | 11,754 |
| 2012 |    | 11,754 |
| 2013 |    | 11,754 |
| 2014 |    | 2,547  |
|      |    | <hr/>  |
|      | \$ | 47,016 |
|      |    | <hr/>  |