



Jose Toscano
Director General &
Chief Executive Officer

5 October 2012

Ref: 10-05-12/DG-128

TO: ALL PARTIES TO THE AGREEMENT RELATING TO THE
INTERNATIONAL TELECOMMUNICATIONS SATELLITE
ORGANIZATION

SUBJECT: REPORT OF ITSO'S EXTERNAL AUDITORS OF EXPENDITURES
AND ACCOUNTS (1 JULY 2011 – 30 JUNE 2012)

Dear Colleagues,

Please find herewith the Report of ITSO's External Auditors of Expenditures and Accounts for FY 12 (1 July 2011 – 30 June 2012).

I am happy to inform all Parties that the Organization has saved \$113,772.00, which was transferred to the Reserve Fund account on 4 October 2012 and will be used to fund activities for the benefit of the membership as decided by AP-34.

Yours sincerely,

A handwritten signature in black ink, appearing to be "J. Toscano", written over a horizontal line.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**INTERNATIONAL TELECOMMUNICATIONS
SATELLITE ORGANIZATION**

JUNE 30, 2012

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 the International Telecommunications Satellite Organization (ITSO or the Organization) as of June 30, 2012, and the related statements of revenue and expenses, balance of funding capital, and cash flows for the year then ended. 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 2012 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 June 30, 2012, and the results of its operations, balance of funding capital and its cash flows for the year then ended, in conformity with the accounting principles of the Organization, as described in note 3.

Vienna, Virginia
September 27, 2012



International Telecommunications Satellite Organization

STATEMENT OF ASSETS, LIABILITIES AND FUNDING CAPITAL

June 30, 2012

ASSETS

Cash and cash equivalents	\$ 332,997
Cash and cash equivalents - Reserve Fund	122,985
Cash and cash equivalents - restricted	215,311
Funding agreement contract	1,799,633
Prepaid expenses	3,632
Property and equipment, net of accumulated depreciation of \$45,448	5,635
Deposits and other assets	18,402
	<u>\$ 2,498,595</u>

LIABILITIES AND FUNDING CAPITAL

LIABILITIES

Accounts payable and accrued expenses	\$ 56,839
Deferred revenue on funding agreement contract	103,193
	<u>160,032</u>

COMMITMENTS

-

FUNDING CAPITAL

2,338,563

\$ 2,498,595

See notes to financial statements

International Telecommunications Satellite Organization

STATEMENT OF REVENUE AND EXPENSES

Year ended June 30, 2012

REVENUE	
Principal maturities on funding agreement contract	\$ 1,540,477
Interest received on funding agreement contract	207,067
Interest income	3,380
Miscellaneous income	<u>1,535</u>
Total revenue	<u>1,752,459</u>
EXPENSES	
Staff expenses	714,009
Office expenses	94,268
Professional fees	211,888
Information technology development	57,894
Travel and hospitality	175,508
Meetings	380,920
Depreciation	<u>4,200</u>
Total expenses	<u>1,638,687</u>
Excess of revenue over expenses	<u>\$ 113,772</u>

See notes to financial statements

International Telecommunications Satellite Organization
STATEMENT OF BALANCE OF FUNDING CAPITAL
Year ended June 30, 2012

Balance at June 30, 2011	\$ 3,835,616
Principal maturities on funding agreement contract recognized as revenue	(1,540,477)
Expenses paid from Reserve Fund	(71,614)
Interest earned on Contingency Fund	1,266
Excess of revenue over expenses	<u>113,772</u>
Balance at June 30, 2012	<u><u>\$ 2,338,563</u></u>

See notes to financial statements

International Telecommunications Satellite Organization

STATEMENT OF CASH FLOWS

Year ended June 30, 2012

Cash flows from operating activities	
Excess of revenue over expenses	\$ 113,772
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities	
Depreciation	4,200
Increase in prepaid expenses	(368)
Increase in deposits and other assets	(6,402)
Decrease in accounts payable and accrued expenses	<u>(14,629)</u>
Net cash provided by operating activities	<u>96,573</u>
Cash flows from investing activities	
Transfer to Reserve Fund	<u>(182,341)</u>
Net cash used in investing activities	<u>(182,341)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(85,768)
Cash and cash equivalents, beginning of year	<u>418,765</u>
Cash and cash equivalents, end of year	<u><u>\$ 332,997</u></u>
Significant noncash investing and financing activities	
Decrease in interest accrued on funding agreement contract	<u><u>\$ 93,652</u></u>

See notes to financial statements

International Telecommunications Satellite Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - TERMS OF REFERENCE

The appointment of the firm of Reznick Group as the International Telecommunications Satellite Organization's (ITSO or the Organization) external auditor was approved by the 27th 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 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. In accordance with the treaty Agreement, ITSO maintains its headquarters in Washington, DC.

The 34th Assembly of Parties approved the establishment of a reserve fund in which the Director General of ITSO was authorized to utilize up to a prescribed amount of the reserve fund to cover the costs of actions taken to benefit the membership, such as capacity building initiatives. In June 2010, the Organization, in cooperation with ITU Academy, launched a capacity building initiative to provide satellite communications training to member Parties. The costs of the capacity building initiatives are not included in the approved annual budget of the Organization. Similar partnerships have been entered with the Commonwealth Telecommunications Organization (CTO) and the African Telecommunications Union (ATU).

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

June 30, 2012

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 - Reserve Fund

Cash and cash equivalents - reserve fund represents the Reserve Fund as approved by the 34th meeting of the Assembly of Parties. As approved by the Assembly of Parties, the Director General may draw up to 80% of the value of the Reserve Fund to cover the cost of any action taken for benefit of membership, such as capacity building initiatives on satellite communications.

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, is stated at the present value of the future cash receipts due under the related agreements discounted at the weighted average intrinsic rate (see note 5). 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, which are reclassified from Funding Capital, and interest earned on cash and cash equivalents.

International Telecommunications Satellite Organization

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Organization has evaluated the activity of ITSO through September 27, 2012, the date the financial statements were available to be issued. Other than the events disclosed in note 8, the Organization is not aware of any other subsequent events which would require recognition or disclosure in the financial statements.

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 year ended June 30, 2012.

Reserve Fund

Expenses paid out of the Reserve Fund represent unbudgeted expenses to cover the costs of actions taken to benefit the membership, such as capacity building initiatives incurred during the fiscal year, which are paid out of cash and cash equivalents - Reserve Fund and not included in the accompanying statement of revenue and expenses. During the year ended June 30, 2012, payments totaling \$71,614 were made from the Reserve Fund.

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

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The valuation can be determined using widely accepted valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), or the cost approach (cost to replace the service capacity of an asset or replacement cost). As a basis for applying a market-based approach in fair value measurements, GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable market-based inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities in active markets; quoted prices for similar or identical assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity, such as discounted cash flow methodologies.

International Telecommunications Satellite Organization

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

The Organization's population of financial assets and liabilities subject to fair value measurements on a recurring basis and the necessary disclosures are as follows:

Recurring fair value measurements	Fair value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Contingency fund	\$ 215,311	\$ -	\$ -	\$ 215,311

NOTE 5 - FUNDING AGREEMENT CONTRACT

The 25th Assembly of Parties in November 2000 decided that ITSO's annual financial requirements would 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 was established to meet the annual funding requirements of ITSO through fiscal 2012.

Principal and interest received under the Funding Agreement Contract is used to fund 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 25th 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 inflation adjusted dollars). Article 14 of the Public Services Agreement between ITSO and Intelsat, Ltd. incorporated the Assembly of Parties decision regarding the Funding Agreement Contract.

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

2012	\$ 1,805,000
Less: Amount representing interest	<u>5,367</u>
	<u>\$ 1,799,633</u>

International Telecommunications Satellite Organization

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

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.

The contingency fund is held in a brokerage account and is carried at fair market value. The following is a summary of the contingency fund at June 30, 2012:

	<u>Cost basis</u>	<u>Unrealized gain</u>	<u>Estimated fair value</u>
Contingency fund	<u>\$ 215,311</u>	<u>\$ -</u>	<u>\$ 215,311</u>

The unrealized gain is included in interest earned on contingency fund on the statement of changes in funding capital for the year ended June 30, 2012.

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, October 2007 and January 2010 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 expires on July 18, 2013 and 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.

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.).

International Telecommunications Satellite Organization
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE 7 - COMMITMENTS (Continued)

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

2013	\$	30,222
2014		<u>3,449</u>
	\$	<u>33,671</u>

Expenses incurred under the Office Space Agreement, lease agreements and operating expenses during the year ended June 30, 2012 totaled \$40,618.

NOTE 8 - SUBSEQUENT EVENTS

In July 2012, the 35th Assembly of Parties agreed to continue the ITSO Agreement until July 18, 2021 and will consider at its ordinary meeting in 2020 whether to terminate the ITSO Agreement after July 18, 2021. Additionally, the Assembly of Parties decided to extend the term of the current Director General until July 18, 2017. ITSO and Intelsat have yet to negotiate the amount, timing and method of the additional funding to be provided by Intelsat to meet ITSO's annual financial requirements beyond fiscal year 2013.