



Jose Toscano
Director General and
Chief Executive Officer

26 August 2016

Ref: 08-26-16/DG-48

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

SUBJECT: INDEPENDENT AUDITOR'S REPORT ON ITSO'S ACCOUNTS AND
EXPENDITURES

Dear Colleagues,

I enclose the External Auditor's Report on ITSO's accounts and expenditures for Financial Year 2016 (1 July 2015 – 30 June 2016), prepared by Frank & Company, the external auditor selected by AP-36.

I am pleased to report that for Financial Year 2016, the post-audit excess of revenue over expenses was \$284,042.00, which was transferred to the Reserve Fund account on 23 August 2016, in accordance with the decision of AP-34.

Yours sincerely,

J. M. Toscano

To the Assembly of Parties of
International Telecommunications Satellite Organization

We have audited the financial statements of International Telecommunications Satellite Organization (the Organization) for the year ended June 30, 2016, and have issued our report thereon dated August 22, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 19, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions under the other comprehensive basis of accounting have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was Management's estimate of the useful lives of fixed assets. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the disclosure of the basis of accounting in Note 2 to the financial statements and the disclosure of funding agreement contract in Note 4.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 22, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Assembly of Parties and management of International Telecommunications Satellite Organization and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Frank's Company, Inc." with a stylized flourish at the end.

1360 Beverly Road
Suite 300
McLean, Virginia 22101
August 22, 2016

***INTERNATIONAL TELECOMMUNICATIONS
SATELLITE ORGANIZATION***

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

CONTENTS

Independent auditors' report

Financial statements

Statement of assets, liabilities and funding capital

Statement of revenue and expenses

Statement of balance of funding capital

Statement of cash flows

Notes to financial statements

INDEPENDENT AUDITORS' REPORT

To the Assembly of Parties of
International Telecommunications Satellite Organization

We have audited the accompanying financial statements of International Telecommunications Satellite Organization (the Organization), which comprise the statement of assets, liabilities and funding capital as of June 30, 2016, and the related statements of revenue and expenses, balance of funding capital and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the other comprehensive basis of accounting (OCBOA) described in Note 2; this includes determining that the OCBOA is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 assets, liabilities and funding capital of International Telecommunications Satellite Organization as of June 30, 2016, and the changes in its funding capital and its cash flows for the year then ended in accordance with the other comprehensive basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting described in the Note, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

1360 Beverly Road
Suite 300
McLean, Virginia 22101
August 22, 2016

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

STATEMENT OF ASSETS, LIABILITIES AND FUNDING CAPITAL

JUNE 30, 2016

Assets:

Cash and cash equivalents	\$ 1,301,903
Cash and cash equivalents - reserve fund	473,642
Cash and cash equivalents - restricted	217,165
Prepaid expenses	4,252
Deposits and other assets	<u>7,063</u>

Total assets \$ 2,004,025

Liabilities and funding capital:

Liabilities:

Accounts payable and accrued expenses	\$ 9,638
Deferred revenue - funding agreement contract	<u>895,000</u>

Total liabilities 904,638

Funding capital 1,099,387

Total liabilities and funding capital \$ 2,004,025

See accompanying notes to financial statements.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

STATEMENT OF REVENUE AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

Revenue:

Funding agreement contract	\$ 1,782,400
Interest income	<u>2,255</u>

Total revenues	<u>1,784,655</u>
----------------	------------------

Expenses:

Staff expenses	813,936
Office expenses	138,718
Professional fees	206,327
Information technology development	18,737
Travel and hospitality	211,262
Meetings	<u>111,633</u>

Total expenses	<u>1,500,613</u>
----------------	------------------

Excess of revenue over expenses	<u>\$ 284,042</u>
---------------------------------	-------------------

See accompanying notes to financial statements.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

STATEMENT OF BALANCE OF FUNDING CAPITAL

FOR THE YEAR ENDED JUNE 30, 2016

Balance at June 30, 2015	\$ 925,852
Net expenses paid from reserve fund	(109,430)
Net activity from IADB study	(1,547)
Interest earned on contingency fund	470
Excess of revenue over expenses	<u>284,042</u>
Balance at June 30, 2016	<u>\$ 1,099,387</u>

See accompanying notes to financial statements.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

Cash flows from operating activities:

Excess of revenue over expenses	\$ 284,042
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:	
Change in prepaid expenses	8,089
Change in accounts payable and accrued expenses	(18,102)
Change in deferred revenue	<u>45,000</u>
Net cash provided by operating activities	<u>319,029</u>

Cash flows from investing activities:

Transfer to reserve fund	<u>(247,677)</u>
--------------------------	------------------

Net increase in cash and cash equivalents 71,352

Cash and cash equivalents, beginning 1,230,551

Cash and cash equivalents, ending \$ 1,301,903

See accompanying notes to financial statements.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

1. Organization

The International Telecommunications Satellite Organization is an inter-governmental 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 was formally 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 now private Luxemburg-registered company, Intelsat, SA, 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, SA.

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 established with the Commonwealth Telecommunications Organization (CTO), the African Telecommunications Union (ATU), Comision Tecnica Regional de Telecomunicaciones (COMTELCA), East African Communication Organization (EACO), Southern Africa Development Community (SADC), African Union Commission (AUC), Inter-American Development Bank (IADB), American University Washington College of Law (AUWCL), Caribbean Telecommunications Union (CTU), Intersputnik, and West Africa Telecommunications Regulatory Association (WATRA).

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.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. 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 payments on the Funding Agreement Contract (see Note 4) as revenue. In addition, the Organization excludes some accrued expenses as of the end of the year including accrued leave expense and deferred rent. All amounts included in the financial statements and notes to the financial statements are stated in U.S. dollars.

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 U.S. 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 U.S. financial institutions in amounts that exceed U.S. federal and private insurance limits.

Cash and cash equivalents - reserve fund - As approved by the 34th meeting of 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.

Revenue recognition - Revenue is comprised of payments received annually under the Funding Agreement Contract and interest earned on cash and cash equivalents. Under the terms of the Funding Agreement Contract, funding from Intelsat, SA will be recognized as revenue in the fiscal year in which the funding pertains under the Funding Agreement Contract. Funding received in advance of the fiscal year will be recognized as deferred revenue.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. 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. Payments from the Contingency Fund may only be made in the event that Article 6 of the Public Services Agreement between ITSO and Intelsat, SA has been invoked. There were no payments from the Contingency Fund during the year ended June 30, 2016.

Reserve fund - Expenses paid out of the Reserve Fund represent expenses to cover the costs of actions taken to benefit the membership, such as capacity building initiatives and publication of studies on satellites, 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, 2016, payments totaling \$109,430 related to capacity building were made from the Reserve Fund. In addition, \$42,000 was received in the Reserve Fund for an IADB study with \$43,547 disbursed from the Reserve Fund for expenditures relating to the study, resulting in a net disbursement from the reserve fund of \$1,547.

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.

3. 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, US 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.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

3. Fair value measurements (continued)

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.

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:

	Fair value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Contingency fund	<u>\$ 217,165</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,165</u>

4. Funding agreement contract

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 as from July 18, 2021.

On February 3, 2016, an agreement (the Funding Agreement Contract) was entered into between ITSO and Intelsat, SA establishing the funding to be provided to ITSO for fiscal years 2017, 2018 and 2019. For each fiscal year for which funding is to be provided, Intelsat, SA shall pay one-half of the annual obligation by no later than the last business day of June of the preceding fiscal year and the remaining one-half by no later than first business day of the following January.

The Funding Agreement Contract established the funding to be provided to ITSO for fiscal years 2017, 2018 and 2019 as follows:

- \$1,790,000 for fiscal year 2017.
- \$1,810,000 for fiscal year 2018.
- \$1,820,000 for fiscal year 2019.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

4. Funding agreement contracts (continued)

The first payment for funding under the Funding Agreement Contract for fiscal year 2017 was received by ITSO on June 30, 2016 in an amount of \$895,000, and is included in deferred revenue on the statement of assets, liabilities and funding capital.

Additional provisions are included in the Funding Agreement Contract pertaining to the replenishment of the Contingency Fund (see note 5).

5. Contingency fund

As decided by the 25th Assembly of Parties in November 2000, an additional contingency fund (the Contingency Fund) was established prior to the date of Restructuring in July 2001, to cover possible disputes between ITSO and Intelsat, SA 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, SA, pursuant to Article 10(h) of the amended ITSO 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 accordance with the Funding Agreement Contract and Article 14 of the Public Services Agreement, Intelsat, SA will not be required to replenish the Contingency Fund at any time during the term of the Funding Agreement Contract unless ITSO triggers the replenishment obligation by notifying Intelsat, SA that it is invoking Article 6 of the Public Services Agreement and formally notifying Intelsat, SA that ITSO has initiated an arbitration proceeding against Intelsat, SA or has received formal notification from Intelsat, SA that an arbitration proceeding has been initiated by Intelsat, SA against ITSO. Since no disputes occurred during the year ended June 30, 2016, there were no disbursements from the contingency fund.

6. Commitments

Office space agreement, leases and operating expenses - The Organization entered into a non-cancellable operating lease for office space with an effective start date of July 1, 2014 that expires on June 30, 2021. The base rent is \$84,753 per annum and is subject to a 2.75% escalation each subsequent year. The Organization paid a security

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

6. Commitments (continued)

deposit of \$7,063 and the first months' rent of \$7,063 in April 2014. Future minimum lease payments due under this operating lease are as follows:

2017	\$ 89,478
2018	91,939
2019	94,467
2020	97,065
2021	<u>99,735</u>
	<u>\$ 472,684</u>

Expenses incurred under this lease agreement during the year ended June 30, 2016 totaled \$88,384.

Vehicle lease agreement - On July 31, 2013, ITS0 entered into a 4 year auto lease agreement. Minimum annual payments due under the new auto lease agreement will be as follows:

2017	<u>\$ 12,418</u>
------	------------------

Expenses incurred under the vehicle lease agreement during the year ended June 30, 2016 totaled \$12,418.

7. Retirement plan

The Organization provides retirement benefits to its employees through a defined contribution plan covering all employees who have attained the age of 21, completed a minimum of six (6) months of service, and credited with at least eighty-three (83) hours of service in each month. The Organization may make matching and profit sharing contributions to the plan. Total contributions to the plan by the Organization for the year ended June 30, 2016 were \$77,485.

8. Subsequent events

Management has evaluated subsequent events through August 22, 2016, when the financial statements were available to be issued.