

Patrick Masambu
Director General &
Chief Executive Officer

12 September 2018

Ref: 09-12-18/DG-47

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 2018 (1 July 2017 – 30 June 2018), prepared by Frank & Company, the external auditor selected by AP-36.

I am pleased to report that for Financial Year 2018, the post-audit excess of revenue over expenses was \$228,409.00, which was transferred to the Reserve Fund account on 10 September 2018, in accordance with the decision of AP-34.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Patrick Masambu". The signature is fluid and cursive, with a large initial "P" and "M".

Frank & Company, p.c.

Certified Public Accountants
703-821-0702

To the Assembly of Parties of
International Telecommunications Satellite Organization

We have audited the financial statements of International Telecommunications Satellite Organization (ITSO) for the year ended June 30, 2018, and have issued our report thereon dated August 31, 2018. 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 March 7, 2018. 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 ITSO 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 2018. We noted no transactions entered into by ITSO 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.

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 and the disclosure of funding agreement contract in Note 3 to the financial statements.

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

There were no audit adjustments to the original trial balance provided to us to complete our audit. There are no uncorrected misstatements to report.

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 31, 2018.

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 ITSO'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 ITSO'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 & Company, P.C." The signature is written in a cursive, flowing style.

1360 Beverly Road
Suite 300
McLean, Virginia 22101
August 31, 2018

***INTERNATIONAL TELECOMMUNICATIONS
SATELLITE ORGANIZATION***

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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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, which comprise the statement of assets, liabilities and funding capital as of June 30, 2018, 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, 2018, 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.

A handwritten signature in black ink that reads "Frank & Company, P.C." The signature is written in a cursive, flowing style.

1360 Beverly Road
Suite 300
McLean, Virginia 22101
August 31, 2018

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

STATEMENT OF ASSETS, LIABILITIES AND FUNDING CAPITAL

JUNE 30, 2018

Assets:

Cash and cash equivalents	\$ 1,404,733
Cash and cash equivalents - reserve fund	817,211
Cash and cash equivalents - contingency fund	218,316
Equipment, net of accumulated depreciation of \$57,606	22,382
Deposits and other assets	<u>7,063</u>

Total assets	<u>\$ 2,469,705</u>
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Liabilities and funding capital:

Liabilities:

Accounts payable and accrued expenses	\$ 101,323
Deferred revenue - funding agreement contract	<u>910,000</u>

Total liabilities	1,011,323
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Funding capital	<u>1,458,382</u>
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Total liabilities and funding capital	<u>\$ 2,469,705</u>
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See accompanying notes to financial statements.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

STATEMENT OF REVENUE AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

Revenue:

Funding agreement contract	\$ 1,810,000
Interest income	<u>3,959</u>

Total revenues	<u>1,813,959</u>
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Expenses:

Staff expenses	784,835
Office expenses	150,515
Professional fees	236,821
Information technology development	23,623
Travel and hospitality	148,446
Meetings	237,760
Depreciation	<u>3,550</u>

Total expenses	<u>1,585,550</u>
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Excess of revenue over expenses	<u>\$ 228,409</u>
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See accompanying notes to financial statements.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

STATEMENT OF BALANCE OF FUNDING CAPITAL

FOR THE YEAR ENDED JUNE 30, 2018

Balance at June 30, 2017	\$ 1,293,223
Net expenses paid from reserve fund	(63,848)
Interest earned on contingency fund	598
Excess of revenue over expenses	<u>228,409</u>
Balance at June 30, 2018	<u>\$ 1,458,382</u>

See accompanying notes to financial statements.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

Cash flows from operating activities:

Excess of revenue over expenses \$ 228,409

Adjustments to reconcile excess of revenue
over expenses to net cash provided by
operating activities:

Depreciation 3,550

Change in prepaid expenses 8,122

Change in deposits and other assets 207

Change in accounts payable and accrued expenses 64,242

Change in deferred revenue 5,000

Net cash provided by operating activities 309,530

Cash flows from investing activities:

(23,704)

Purchase of equipment (259,277)

Transfer to reserve fund

Net cash used in investing activities (282,981)

Net increase in cash and cash equivalents

26,549

Cash and cash equivalents, beginning

1,378,184

Cash and cash equivalents, ending

\$ 1,404,733

See accompanying notes to financial statements.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. Organization

The International Telecommunications Satellite Organization (ITSO) 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. ITSO 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, ITSO operated as an intergovernmental organization known as INTELSAT, the world's first commercial satellite operator. On July 18, 2001, ITSO was restructured into two separate entities: (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 Intelsat, SA 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, ITSO, 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 ITSO. 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.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 differences between the basis used in the accompanying financial statements and U.S. GAAP is the method of recognition of revenue and the recognition of program expenses. ITSO recognizes the receipt of payments on the Funding Agreement Contract (Note 3) as revenue when received rather than as a receivable upon execution of the contract. In addition, ITSO presents expenses related to contingency and reserve funds (Note 4 and 5, respectively) as direct reductions of funding capital rather than an expense in the statement of activities. Further, some accrued expenses as of the end of the year including accrued leave expense and deferred rent are not presented in the accompanying financial statements. 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 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 - ITSO considers all highly liquid investments with a maturity date at acquisition of three months or less to be cash equivalents. ITSO maintains cash and cash equivalents in U.S. financial institutions in amounts that exceed U.S. federal insurance limits.

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 is 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 is recognized as deferred revenue.

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

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

3. 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 year 2019 as follows:

- \$1,820,000 for fiscal year 2019.

The first payment for funding under the Funding Agreement Contract for fiscal year 2019 was received by ITSO on June 30, 2018 in an amount of \$910,000, 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 4).

4. 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 of the Assembly of Parties for its consideration and action.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

4. Contingency fund (continued)

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, 2018, there were no disbursements from the contingency fund.

5. 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 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, 2018, payments totaling \$63,848 related to capacity building were made from the Reserve Fund.

6. Commitments

Office space agreement, leases and operating expenses - ITSO 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. Rent is subject to a 2.75% escalation each subsequent year. ITSO has also entered into a vehicle lease agreement through July 2021. Future minimum lease payments due under these operating leases are as follows:

2019	\$ 106,577
2020	109,175
2021	<u>111,845</u>
	<u>\$ 327,597</u>

Expenses incurred under these lease agreement during the year ended June 30, 2018 totaled \$108,197.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

7. Retirement plan

ITSO 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. ITSO may make matching and profit sharing contributions to the plan. Total contributions to the plan by ITSO for the year ended June 30, 2018 were \$64,347.

8. Subsequent events

Management has evaluated subsequent events through August 31, 2018, when the financial statements were available to be issued.