

***INTERNATIONAL
TELECOMMUNICATIONS SATELLITE
ORGANIZATION***

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

CONTENTS

Independent auditor's report

Financial statements

Statement of assets, liabilities and funding capital

Statement of revenue and expenses

Statement of changes in funding capital

Statement of cash flows, cash and cash equivalents - operations

Notes to financial statements

Independent Auditor's Report

To the Assembly of Parties of
International Telecommunications Satellite Organization

Prager Metis CPAs, LLC

1360 BEVERLY ROAD
SUITE 300
MCLEAN, VA 22101

T 703.821.0702
F 703.448.1236

www.pragermetis.com

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, 2019, and the related statements of revenue and expenses, changes in 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, 2019, 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 a modified basis of accounting as modified by the amended agreement, 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.

Prager Metis CPAs, LLC

Prager Metis CPAs, LLC
McLean, Virginia
September 30, 2019

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

STATEMENT OF ASSETS, LIABILITIES AND FUNDING CAPITAL

JUNE 30, 2019

Assets:

Cash and cash equivalents - operations	\$ 464,923
Cash and cash equivalents - reserve fund	984,418
Cash and cash equivalents - restricted fund	218,928
Prepaid expenses	13,183
Equipment, net of accumulated depreciation of \$65,430	40,762
Deposits and other assets	<u>7,063</u>

Total assets	<u><u>\$ 1,729,277</u></u>
--------------	----------------------------

Liabilities and funding capital:

Liabilities:

Accounts payable and accrued expenses	<u>\$ 30,632</u>
---------------------------------------	------------------

Funding capital	<u>1,698,645</u>
-----------------	------------------

Total liabilities and funding capital	<u><u>\$ 1,729,277</u></u>
---------------------------------------	----------------------------

See accompanying notes to financial statements.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

STATEMENT OF REVENUE AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

Revenue:

Funding agreement contract	\$ 1,820,000
Interest income	<u>4,275</u>

Total revenue	<u>1,824,275</u>
---------------	------------------

Expenses:

Staff expenses	853,380
Office expenses	145,485
Professional fees	238,706
Information technology development	16,472
Travel and hospitality	153,221
Meetings	115,534
Depreciation	<u>7,824</u>

Total expenses	<u>1,530,622</u>
----------------	------------------

Excess of revenue over expenses	<u>\$ 293,653</u>
---------------------------------	-------------------

See accompanying notes to financial statements.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

STATEMENT OF CHANGES IN FUNDING CAPITAL

FOR THE YEAR ENDED JUNE 30, 2019

Balance at June 30, 2018	\$ 1,458,382
Net expenses paid from reserve fund	(54,002)
Interest earned on restricted fund	612
Excess of revenue over expenses	<u>293,653</u>
Balance at June 30, 2019	<u><u>\$ 1,698,645</u></u>

See accompanying notes to financial statements.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

**STATEMENT OF CASH FLOWS
CASH AND CASH EQUIVALENTS - OPERATIONS**

FOR THE YEAR ENDED JUNE 30, 2019

Cash flows from operating activities:

Excess of revenue over expenses	\$ 293,653
Adjustments to reconcile excess of revenue over expenses to net cash used in operating activities:	
Depreciation	7,824
Change in assets and liabilities	
Prepaid expenses	(13,183)
Accounts payable and accrued expenses	(70,691)
Deferred revenue	<u>(910,000)</u>
Net cash used in operating activities	<u>(692,397)</u>

Cash flows from investing activities:

Purchase of equipment	(26,204)
Transfer to reserve fund	<u>(221,209)</u>
Net cash used in investing activities	<u>(247,413)</u>

Net decrease in cash and cash equivalents (939,810)

Cash and cash equivalents - operations, beginning 1,404,733

Cash and cash equivalents - operations, ending \$ 464,923

See accompanying notes to financial statements.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 Luxembourg-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, 2019

2. Summary of significant accounting policies

Basis of accounting - As the continuing organization, ITSO prepares its financial statements on the modified cash basis of accounting as modified 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 (Notes 4 and 5, respectively) as direct reductions of funding capital rather than an expense in the statement of revenue and expenses. 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.

Concentration of credit risk - ITSO maintains cash and cash equivalents in U.S. financial institutions in amounts that exceed U.S. federal insurance limits and does not believe it is exposed to any significant credit risk related to cash and cash equivalents.

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, 2019

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 pays 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 the first business day of the following January.

The last payment under the Funding Agreement Contract was received by ITSO on January 7, 2019 in the amount of \$910,000.

ITSO Management is meeting with Intelsat, S.A. to determine future funding and execute a new agreement.

Additional provisions are included in the Funding Agreement Contract pertaining to the replenishment of the Contingency Fund (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 at the next meeting of the Assembly of Parties for its consideration and action.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019, there were no disbursements from the Contingency Fund.

5. Reserve fund

As approved at 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, 2019, payments totaling \$54,002 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:

2020	\$ 109,175
2021	<u>111,845</u>
	<u>\$ 221,020</u>

Expenses incurred under these lease agreements during the year ended June 30, 2019 totaled \$110,791 and are included as a component of office expenses on the accompanying statement of revenue and expenses.

INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019 were \$71,753.

8. Subsequent events

Management has evaluated subsequent events through September 30, 2019, when the financial statements were available to be issued.