

Patrick Masambu
Director General &
Chief Executive Officer

23 February 2023

Ref: 02-03-2023/DG-04

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 2021 (1 July 2020 – 30 June 2021), prepared by Prager Metis CPAs (Frank and Company), the external auditor selected by AP-36.

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".

Patrick Masambu
Director General and Chief Executive Officer

January 31, 2023

To the Assembly of Parties of
International Telecommunications Satellite Organization

Prager Metis CPAs, LLC

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We have audited the financial statements of International Telecommunications Satellite Organization (ITSO) for the year ended June 30, 2021, and have issued our report thereon dated January 31, 2023. 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 July 31, 2020. 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 2021. 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, the disclosure of funding agreement contract in Note 3, and the going concern disclosure in Note 9 to the financial statements.

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

Difficulties Encountered in Performing the Audit

We encountered no significant 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. Management has corrected all such misstatements. We noted one audit adjustment to correct beginning funding capital for a journal entry not recorded in the prior year for depreciation expense in the amount of \$10,665.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 January 31, 2023.

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.



**International Telecommunications
Satellite Organization
Financial Statements
(Modified Cash Basis)
June 30, 2021**

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Independent Auditor's Report

To the Assembly of Parties of
International Telecommunications Satellite Organization

Prager Metis CPAs, LLC

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We have audited the accompanying financial statements of International Telecommunications Satellite Organization (ITSO) which comprise the statement of assets, liabilities and funding capital - modified cash basis as of June 30, 2021, and the related statements of revenue and expenses - modified cash basis, changes in funding capital - modified cash basis, and cash flows, cash and cash equivalents - operations - modified cash basis 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, the modified cash basis of accounting as modified by the amended agreement; 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.

Auditor's 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, 2021, 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 cash 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.

Substantial Doubt about ITSO's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that ITSO will continue as a going concern. As discussed in Note 9 to the financial statements, ITSO's funding agreement is through June 2023. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Prager Metis CPAs, LLC
McLean, Virginia
January 31, 2023

International Telecommunications Satellite Organization
Statement of Assets, Liabilities and Funding Capital - Modified Cash Basis
June 30, 2021

Assets

Cash and cash equivalents	\$ 21,531
Cash and cash equivalents - Reserve Fund	97
Cash and cash equivalents - Contingency Fund	60,759
Equipment, net of accumulated depreciation of \$86,762	22,131
Deposits and other assets	<u>7,063</u>

Total assets	<u><u>\$ 111,581</u></u>
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Liabilities and funding capital

Liabilities

Accounts payable and accrued expenses	<u>\$ 67,982</u>
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Total liabilities (all current)	67,982
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Funding capital	<u>43,599</u>
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Total liabilities and funding capital	<u><u>\$ 111,581</u></u>
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See accompanying notes to financial statements.

International Telecommunications Satellite Organization
Statement of Revenue and Expenses - Modified Cash Basis
Year Ended June 30, 2021

Revenue

Funding agreement contract	\$ 824,957
Interest income	18
Other income	<u>55,442</u>
Total revenue	<u>880,417</u>

Expenses

Staff expenses	603,882
Office expenses	145,361
Professional fees	115,000
Information technology development	5,131
Travel and hospitality	124
Meetings	33,029
Depreciation	10,665
Arbitration expenses	<u>12,104</u>
Total expenses	<u>925,296</u>
Excess of expenses over revenues	<u><u>\$ (44,879)</u></u>

See accompanying notes to financial statements.

International Telecommunications Satellite Organization
Statement of Changes in Funding Capital - Modified Cash Basis
Year Ended June 30, 2021

Balance at June 30, 2020	\$ 92,018
Net expenses paid from Reserve Fund	(3,600)
Interest earned on Contingency Fund	60
Excess of revenue over expenses	<u>(44,879)</u>
Balance at June 30, 2021	<u>\$ 43,599</u>

See accompanying notes to financial statements.

International Telecommunications Satellite Organization
Statement of Cash Flows, Cash and Cash Equivalents – Operations - Modified Cash Basis
Year Ended June 30, 2021

Cash flows from operating activities

Excess of expenses over revenue	\$ (44,879)
Adjustments to reconcile excess of expenses over revenue to net cash used in operating activities	
Depreciation	10,665
Changes in assets and liabilities	
Prepaid expenses	12,653
Deposits and other assets	3,000
Accounts payable and accrued expenses	<u>(84,872)</u>
Net cash used in operating activities	<u>(103,433)</u>

Cash flows from investing activities

Transfer from Reserve Fund	52,255
Purchase of equipment	(2,700)
Payments from Contingency Fund	<u>21,446</u>
Net cash provided by investing activities	<u>71,001</u>

Net decrease in cash and cash equivalents (32,432)

Cash and cash equivalents, beginning 53,963

Cash and cash equivalents, ending \$ 21,531

See accompanying notes to financial statements.

Note 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) the 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 June 2022, the Assembly of Parties agreed to continue the ITSO Agreement and has secured funding from Intelsat, SA until June 2023. The Assembly of Parties has established two ad hoc working groups that in collaboration with the ITSO Advisory Committee and with the assistance of ITSO Legal Advisor will report on measures necessary to secure efficient and proper exchange of information between Intelsat, SA and ITSO and secure appropriate funding arrangements that will allow for proper funding of ITSO through the two-year cycles between ordinary meetings of the Assembly of Parties.

Note 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 accounting principles generally accepted in the United States of America (U.S. GAAP) is the method of recognition of revenue

Note 2 Summary of Significant Accounting Policies (continued)

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. However, in 2019, the IAC on behalf of the Assembly of Parties approved use of reserve funds for operating expenses and as a result modified the accounting policy to recognize these expenses within 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. ITSO presents the cash flow statement as cash flows from operations only as generally reserve fund activity is a direct reduction of capital funding. 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 in accordance with the other comprehensive basis of accounting requires management 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. 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

At times, 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.

Note 3 Funding Agreement Contract

On October 15, 2020, a settlement agreement was entered between ITSO and Intelsat, SA establishing funding negotiations for ITSO's 2020 and 2021 fiscal years. For FY 2021, Intelsat provides ITSO monthly funding payable on the first of each month. The funding for FY 2020 was primarily obtained from the Reserved Fund, supplemented with some additional funding paid by Intelsat following an order by the Arbitrator. The arbitration itself was terminated in October 2020 as part of the settlement agreement.

On February 28, 2022, a funding agreement was entered between ITSO and Intelsat, SA, wherein Intelsat, SA will pay a lump sum of \$175,000 for the period July 1, 2021 to January 31, 2022. Commencing February 1, 2022, Intelsat SA will pay \$25,000 monthly through June 2022.

On June 16, 2022, a funding agreement was entered into between ITSO and Intelsat, SA establishing the funding to ITSO for fiscal year 2023. Commencing July 1, 2022, Intelsat, SA will pay \$920,000 in four equal installments of \$230,000 on July 1, 2022, October 1, 2022, January 1, 2023, and April 1, 2023.

Additional provisions are included in the Funding Agreement Contract pertaining to the replenishment of the Contingency Fund (Note 4).

Note 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.

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.

Note 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, 2021, payments totaling \$3,600 related to capacity building were made from the Reserve Fund.

Note 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 expired on June 30, 2021 (original lease). The original lease was extended to September 30, 2021. A new lease was signed effective October 1, 2021 that expires September 30, 2022. Future minimum lease payments due in 2022 and 2023 under these operating leases are \$69,364 and \$14,810, respectively.

The new lease was amended effective October 1, 2022 that expires September 30, 2026.

Expenses incurred under these lease agreements during the year ended June 30, 2021 totaled \$100,841 and are included as a component of office expenses on the accompanying statement of revenue and expenses.

Note 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, 2021 were \$17,451. Subsequent to year end this plan was terminated effective October 22, 2021.

Note 8 Subsequent Events

Management has evaluated subsequent events through January 31, 2023, when the financial statements were available to be issued.

Note 9 Going Concern

ITSO's funding agreement is through June 30, 2023 and will need to be renewed with Intelsat, SA in order for ITSO to continue as a going concern. Management believes that ITSO and Intelsat, SA will reach an agreement to continue funding of ITSO.