

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, 2022, and have issued our report thereon dated May 4, 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 February 3, 2023. 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 2022. 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.

## ITSO RESTRICTED

### *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.

### *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 May 4, 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.

*Prager Metis CPAs, LLC*

Prager Metis CPAs, LLC

**INTERNATIONAL TELECOMMUNICATIONS  
SATELLITE ORGANIZATION**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2022**

International Telecommunications Satellite Organization  
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June 30, 2022

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## **Independent Auditor's Report**

To the Assembly of Parties of  
International Telecommunications Satellite Organization

### **Opinion**

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, 2022, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and funding capital of ITSO as of June 30, 2022, and its revenue and expense, 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 for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ITSO and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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.

### **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.

## **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ITSO's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ITSO's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Prager Metis CPAs, LLC  
McLean, Virginia  
May 4, 2023

International Telecommunications Satellite Organization  
Statement of Assets, Liabilities and Funding Capital - Modified Cash Basis  
June 30, 2022

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<b>Assets</b>	
Cash and cash equivalents	\$ 56,784
Cash and cash equivalents - Reserve Fund	77,179
Cash and cash equivalents - Contingency Fund	28
Equipment, net of accumulated depreciation of \$63,591	47,020
Deposits and other assets	<u>7,063</u>
<b>Total assets</b>	<u>\$ 188,074</u>
<b>Liabilities and funding capital</b>	
<b>Liabilities</b>	
Accounts payable and accrued expenses	\$ 286,258
Funding from member countries	110,636
Note payable, current portion	<u>10,199</u>
<b>Total current liabilities</b>	407,093
Note payable, net of current portion	<u>23,162</u>
<b>Total noncurrent liabilities</b>	23,162
<b>Total liabilities</b>	430,255
<b>Funding capital</b>	<u>(242,181)</u>
<b>Total liabilities and funding capital</b>	<u>\$ 188,074</u>

See accompanying notes to financial statements.

International Telecommunications Satellite Organization  
Statement of Revenue and Expenses - Modified Cash Basis  
Year Ended June 30, 2022

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**Revenue**

Funding agreement contract	\$ 300,000
Reimbursement of allowable costs	183,730
Interest income	<u>32</u>

Total revenue 483,762

**Expenses**

Staff expenses	425,155
Office expenses	67,031
Professional fees	77,248
Information technology development	9,801
Travel and hospitality	109
Meetings	165,867
Depreciation	18,999
Other expenses	<u>1,749</u>

Total expenses 765,959

**Excess of expenses over revenue** \$ (282,197)

See accompanying notes to financial statements.

International Telecommunications Satellite Organization  
Statement of Changes in Funding Capital - Modified Cash Basis  
Year Ended June 30, 2022

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Balance at June 30, 2021	\$ 43,600
Net expenses paid from Reserve Fund	(3,600)
Interest earned on Contingency Fund	16
Excess of expenses over revenues	<u>(282,197)</u>
<b>Balance at June 30, 2022</b>	<b><u>\$ (242,181)</u></b>

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, 2022

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**Cash flows from operating activities**

Excess of expenses over revenue	\$ (282,197)
Adjustments to reconcile excess of expenses over revenue to net cash used in operating activities	
Depreciation	18,999
Changes in assets and liabilities	
Accounts payable and accrued expenses	<u>218,276</u>
<b>Net cash used in operating activities</b>	<u>(44,922)</u>

**Cash flows from investing activities**

Transfer from Reserve Fund	(80,682)
Purchase of equipment	(3,800)
Payments from Contingency Fund	<u>60,747</u>
<b>Net cash used in investing activities</b>	<u>(23,735)</u>

**Cash flows from financing activities**

Contributions from member countries	110,636
Payments on note payable	<u>(6,726)</u>
<b>Net cash provided by financing activities</b>	<u>103,910</u>

**Net increase in cash and cash equivalents**

Cash and cash equivalents, beginning	<u>21,531</u>
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**Cash and cash equivalents, ending**

\$ 56,784

**Noncash investing and financing activities:**

Acquisition of equipment via note payable.	<u>\$ 40,088</u>
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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 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 revenue 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 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. As of the year ended June 30, 2022, \$3,600 in payments related to capacity building have been made from the Reserve Fund.

**Note 6 Note Payable**

ITSO entered into a note payable for the purchase of a vehicle during the year. Terms of the agreement call for 48 monthly payments of \$942 beginning July 2021. The note payable carries an interest rate of 5.89% and is slated to mature July 2025. Future payments due under the agreement at June 30, 2022 consist of the following:

2023	\$	10,199
2024		10,796
2025		11,429
2026		<u>937</u>
	\$	<u>33,361</u>

**Note 7 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. The new lease was amended effective October 1, 2022 that expires September 30, 2026. Future minimum lease payments due under these operating leases consist of the following:

2023	\$ 57,288
2024	57,916
2025	59,651
2026	61,435
2027	<u>15,471</u>
	<u>\$ 251,761</u>

Expenses incurred under these lease agreements during the year ended June 30, 2022 totaled \$55,618 and are included as a component of office expenses on the accompanying statement of revenue and expenses.

As ITSO's financial statements utilize the other comprehensive basis of accounting, recognition of potential lease assets and liabilities are not applicable. As such, ASC 842 – *Leases*, which is effective for all nonpublic entities with years on or after December 15, 2022, will not be adopted in the upcoming fiscal year.

**Note 8 Retirement Plan**

ITSO provided retirement benefits to its employees through a defined contribution plan covering all employees who had attained the age of 21, completed a minimum of six (6) months of service, and were credited with at least eighty-three (83) hours of service in each month. ITSO could make matching and profit-sharing contributions to the plan. This plan was terminated effective October 22, 2021.

**Note 9 Subsequent Events**

Management has evaluated subsequent events through May 4, 2023, when the financial statements were available to be issued.

**Note 10 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.