

**PACIFIC TELECOMMUNICATIONS COUNCIL**

**FINANCIAL STATEMENTS**

**Year Ended June 30, 2007 and 2006**

**and**

**INDEPENDENT AUDITOR'S REPORT**

# PACIFIC TELECOMMUNICATIONS COUNCIL

## TABLE OF CONTENTS

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	Page No.
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 11



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Pacific Telecommunications Council  
Honolulu, Hawaii

We have audited the accompanying statements of financial position of Pacific Telecommunications Council (a non-profit corporation) as of June 30, 2007 and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2006 financial statements and, in our report dated August 29, 2006, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Telecommunications Council as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*James D. Jennings CPA Inc*

September 22, 2007

**PACIFIC TELECOMMUNICATIONS COUNCIL**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2007 and 2006**

<b>ASSETS</b>	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and cash equivalents	\$ 630,853	\$ 130,356
Investments	-	430,419
Trade accounts receivable, net of allowance of \$36,324 in 2007 and \$38,085 in 2006	58,584	63,542
Prepaid expenses	51,403	53,436
Total current assets	<u>740,840</u>	<u>677,753</u>
Property and Equipment, net		
Furniture and fixtures	25,358	25,358
Equipment	317,276	302,277
Leasehold improvements	107,949	107,949
	<u>450,583</u>	<u>435,584</u>
Less accumulated depreciation and amortization	<u>(409,117)</u>	<u>398,054</u>
	41,466	37,530
Other Assets		
Rent deposits	3,853	3,978
Intangible assets, less accumulated amortization of \$2,205 in 2007 and \$2,205 in 2006	-	-
	<u>3,853</u>	<u>3,978</u>
Total assets	<u>\$ 786,159</u>	<u>\$ 719,261</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$ 41,202	\$ 11,027
Accrued vacation	30,010	35,792
Deferred Income		
Membership fees	195,096	201,439
Conference contributions and registrations	3,924	31,662
Total current liabilities	<u>270,232</u>	<u>279,920</u>
<b>NET ASSETS</b>		
Unrestricted		
Available for operations	115,927	39,341
Designated by the Board of Directors as reserve	400,000	400,000
Total net assets	<u>515,927</u>	<u>439,341</u>
Total liabilities and net assets	<u>\$ 786,159</u>	<u>\$ 719,261</u>

See notes to financial statements.

**PACIFIC TELECOMMUNICATIONS COUNCIL**  
**STATEMENTS OF ACTIVITIES**  
**Years Ended June 30, 2007 and 2006**

	2007	2006
Changes in unrestricted net assets		
Support, revenues and gains		
Membership dues		
Renewals	\$ 312,789	310,659
New members	38,635	48,735
Registration income	730,652	616,507
Contributions	424,043	393,837
Advertising income	25,820	7,020
Interest and dividend income	19,562	16,945
Net unrealized and realized (loss)/gains on investments	4,963	(5,482)
Total unrestricted support, revenues and gains	1,556,464	1,388,221
Cost of services and expenses		
Program services		
PTC conference	863,612	805,468
Supporting services		
Management and general	616,266	703,262
Fundraising	-	-
Total supporting services	616,266	703,262
Total expenses	1,479,878	1,508,730
Increase (Decrease) in unrestricted net assets	76,586	(120,509)
Net assets, beginning of the year	439,341	559,850
Net assets, end of the year	\$ 515,927	\$ 439,341

See notes to financial statements.

**PACIFIC TELECOMMUNICATIONS COUNCIL**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**Years Ended June 30, 2007 and 2006**

	2007				Total Program and Supporting Services
	Program Services	Supporting Services		Total	
	PTC Conference	Management and General	Fundraising		
<b>Compensation and related expenses:</b>					
Salaries and wages	\$ 180,819	\$ 301,125	\$ -	\$ 301,125	\$ 481,944
Employee benefits	46,845	13,810	-	13,810	60,655
Payroll taxes	22,123	13,906	-	13,906	36,029
Total compensation and related expenses	<u>249,787</u>	<u>328,841</u>	<u>-</u>	<u>328,841</u>	<u>578,628</u>
<b>Operating expenses:</b>					
Conference events	247,553	-	-	-	247,553
Professional services/technical support	109,312	52,638	-	52,638	161,950
Rent	-	82,457	-	82,457	82,457
Office equipment and supplies	48,364	26,353	-	26,353	74,717
Production/print/copy/fold	52,918	180	-	180	53,098
Phone/fax/postage	31,652	10,770	-	10,770	42,422
Conference technology	37,999	-	-	-	37,999
Advertising	33,402	1,082	-	1,082	34,484
Provision for doubtful accounts	-	31,646	-	31,646	31,646
Bank fees	14,396	14,181	-	14,181	28,577
Insurance	4,390	13,183	-	13,183	17,573
Travel	8,139	7,448	-	7,448	15,587
Meetings	3,535	7,950	-	7,950	11,485
Financial aid	11,285	-	-	-	11,285
Depreciation and amortization	-	11,063	-	11,063	11,063
Audit services	-	10,446	-	10,446	10,446
Miscellaneous	8,000	2,266	-	2,266	10,266
Legal services	-	7,356	-	7,356	7,356
Staff education/development	1,133	4,860	-	4,860	5,993
Dues and subscriptions	803	1,604	-	1,604	2,407
Recruitment costs	-	1,574	-	1,574	1,574
Auto expenses	342	368	-	368	710
General excise taxes	602	-	-	-	602
Total operating expenses	<u>613,825</u>	<u>287,425</u>	<u>-</u>	<u>287,425</u>	<u>901,250</u>
Total expenses	<u>\$ 863,612</u>	<u>\$ 616,266</u>	<u>\$ -</u>	<u>\$ 616,266</u>	<u>\$ 1,479,878</u>

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See notes to financial statements.

**PACIFIC TELECOMMUNICATIONS COUNCIL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Years Ended June 30, 2007 and 2006**

	2006				Total Program and Supporting Services
	Program Services	Supporting Services		Total	
	PTC Conference	Management and General	Fundraising		
<b>Compensation and related expenses:</b>					
Salaries and wages	\$ 210,749	\$ 321,015	\$ -	\$ 321,015	\$ 531,764
Employee benefits	40,709	34,396	-	34,396	75,105
Payroll taxes	22,714	19,429	-	19,429	42,143
Total compensation and related expenses	<u>274,172</u>	<u>374,840</u>	<u>-</u>	<u>374,840</u>	<u>649,012</u>
<b>Operating expenses:</b>					
Conference events	242,292	-	-	-	242,292
Professional services/technical support	43,612	43,271	-	43,271	86,883
Rent	-	76,162	-	76,162	76,162
Office equipment and supplies	41,346	24,607	-	24,607	65,953
Phone/fax/postage	51,509	11,951	-	11,951	63,460
Production/print/copy/fold	58,599	533	-	533	59,132
Travel	9,750	34,304	-	34,304	44,054
Other administrative	13,843	21,128	-	21,128	34,971
Advertising	16,205	16,777	-	16,777	32,982
Other fees	13,241	18,278	-	18,278	31,519
Conference technology	29,270	-	-	-	29,270
Provision for doubtful accounts	-	21,800	-	21,800	21,800
Meetings	3,141	12,552	-	12,552	15,693
Depreciation and amortization	-	13,328	-	13,328	13,328
Recruitment costs	-	10,617	-	10,617	10,617
Audit services	-	10,367	-	10,367	10,367
Legal services	-	8,069	-	8,069	8,069
Financial aid	6,950	-	-	-	6,950
Staff education/development	954	2,799	-	2,799	3,753
Other personnel expense	584	1,879	-	1,879	2,463
Total operating expenses	<u>531,296</u>	<u>328,422</u>	<u>-</u>	<u>328,422</u>	<u>859,718</u>
Total expenses	<u>\$ 805,468</u>	<u>\$ 703,262</u>	<u>\$ -</u>	<u>\$ 703,262</u>	<u>\$ 1,508,730</u>

See notes to financial statements.

**PACIFIC TELECOMMUNICATIONS COUNCIL**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2007 and 2006**

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 76,586	\$ (120,509)
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	11,063	13,328
Net unrealized and realized loss/(gains) on investments	(4,963)	5,481
Provision for doubtful receivables	31,646	21,800
Change in assets and liabilities:		
Accounts receivable	(26,688)	(49,171)
Prepaid expenses	2,033	(28,999)
Restricted cash	-	12,802
Other current assets	125	(731)
Accounts payable	30,176	4,917
Accrued vacation	(5,782)	6,217
Pension contribution payable	-	(12,802)
Deferred income	(34,081)	(3,733)
Net cash provided by (used for) operating activities	80,115	(151,400)
Cash flows from investing activities:		
Capital expenditures	(14,999)	(24,465)
Proceeds from sale of certificates of deposit	-	175,000
Purchase of investments	(10,921)	(327,968)
Proceeds from sale of investments	446,303	359,840
Net cash provided by investing activities	420,383	182,407
Net increase in cash and cash equivalents	500,497	31,007
Cash and cash equivalents at beginning of year	130,356	99,349
Cash and cash equivalents at end of year	\$ 630,853	\$ 130,356

See notes to financial statements.

**PACIFIC TELECOMMUNICATIONS COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2007 and 2006**

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**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

The primary objective of Pacific Telecommunications Council (PTC) is to provide a forum for discussion and the interchange of information, ideas and expressions of views regarding telecommunications in the Pacific area.

Annually, PTC organizes a Pacific Telecommunications Conference that provides a forum for discussion of technical, economic, regulatory and social aspects of communications throughout the Pacific. Participants include persons from governments, universities, industry, professional groups and regional organizations.

**Summary of Significant Accounting Policies**

**Basis of accounting**

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

**Basis of presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Cash and cash equivalents**

For purposes of the Statement of Cash Flows, PTC considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**Membership fees**

Membership fees are recorded by PTC as revenues in the applicable membership period. Deferred income includes dues for the year ending June 30, 2008 and 2007. PTC's trade accounts receivable are due from its members for membership dues and other fees. Credit is extended based on evaluation of the member's financial condition and collateral is not required. Trade accounts receivable are due on April 30 and are stated at amounts due from members. PTC estimates its allowance based on management's evaluation of the collectibility of trade accounts receivable. PTC writes-off trade accounts receivable when they become uncollectible.

**PACIFIC TELECOMMUNICATIONS COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2007 and 2006**

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**1. Nature of Operations and Summary of Significant Accounting Policies - (Continued)**

**Depreciation**

PTC follows the practice of capitalizing all expenditures for fixed assets in excess of \$500. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets which range from three to five years. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

**Intangible assets**

The cost of the trademark for the Planet PTC is capitalized and amortized by the straight-line method over five years.

**Income taxes**

PTC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Certain income from publications is considered to be unrelated business income which may be subject to taxation.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Contributions received**

PTC has adopted a policy of classifying donations received as unrestricted if the benefits from the donation are expected to be realized in the same period.

**Net assets**

PTC has established a reserve of \$400,000 to be available to meet resource requirements, should it experience a year with reduced revenues.

**Expense allocation**

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**PACIFIC TELECOMMUNICATIONS COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2007 and 2006**

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**1. Nature of Operations and Summary of Significant Accounting Policies - (Continued)**

**Investments**

Investments are presented in the financial statements in the aggregate at the fair value. PTC maintains its cash and investment balances in an investment firm located in Honolulu, Hawaii. Insurance for the accounts maintained at this investment firm is provided by the Securities Investor Protection Corporation (SIPC) up to \$500,000 (with a limit of \$100,000 for cash) per account holder. PTC has concentrations of investments in U.S. Treasury securities and believes it is not exposed to any significant credit risk on these investments.

**Advertising expenses**

PTC expenses costs of advertising as incurred.

**2. Investments**

In July 2006, PTC's Board of Governor voted to transfer the \$400,000 reserve fund from the Merrill Lynch investment account to a certificate of deposit account with First Hawaiian Bank. The investment account was liquidated in August 2006. The \$400,000 reserve has been deposited into two certificate of deposit accounts at \$200,000 each, with a year-to-date percentage yield of 4.92%.

The following summarizes the investment return and classification in the statement of activities:

	<u>2007</u>	<u>2006</u>
Interest and dividends – Merrill Lynch	\$ 1,998	\$ 16,945
Net unrealized and realized (loss)/gains	<u>4,963</u>	<u>(5,482)</u>
	<u>\$ 6,961</u>	<u>\$ 11,463</u>

**3. Lease Commitments**

PTC leases office space and equipment under noncancelable operating leases that expire on various dates through 2008. Future minimum lease payments by fiscal year as of June 30, 2007 are as follows:

Fiscal year end:	<u>Minimum Payment</u>
2008	\$ 32,000

Total leased office space and equipment expense for the years ended June 30, 2007 and 2006 including common area charges amounted to \$90,287 and \$84,171, respectively.

**PACIFIC TELECOMMUNICATIONS COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2007 and 2006**

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**4. Sponsorship revenues**

PTC sponsorships for the year ended June 30, 2007, designated for PTC '07, are as follows:

<u>Contributor</u>	<u>Amount</u>
PTC 2007 - Honolulu, Hawaii - January 2007	
Arbinet	\$ 15,900
Asia Netcom	6,000
AT&T	18,400
Boeing Satellite Systems	3,500
China Telecom	8,000
CITIC Telecom 1616 Ltd.	5,000
CPCNet Hong Kong Ltd.	8,000
France Telecom	18,000
GCI	20,000
Hilton Hawaiian Village	80,569
Intelsat	18,100
KT	5,500
Level 3 Communications	4,500
Loral Skynet	15,000
Macquarie Telecom	16,700
Pacific Crossing	3,500
Paul, Hastings, Janofsky & Walker LLP	2,500
Qwest	18,000
REDCOM	6,600
Robert Gardner	1,026
Robert Walp	1,000
Savvis	1,700
Sprint	1,400
SubOptic	5,000
Telecom Italia Sparkle	5,000
Telus	37,600
Tyco Telecommunications	30,000
Verizon Business	30,300
Anonymous	285
VSNL International	33,600
World Teleport Association	3,363
	<u>\$ 424,043</u>

**PACIFIC TELECOMMUNICATIONS COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2007 and 2006**

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**4. Sponsorship revenues – (Continued)**

PTC in-kind sponsorships for the year ended June 30, 2007, designated for PTC '07, are as follows:

<u>Contributors</u>	
In-Kind Sponsors	
Time Warner Telecom	Conference phone system
Hawaiian Telcom	Staff cell phones
Sprint	Staff cell phones
Stealth Communications	Conference meeting software

**5. Pension Plan**

PTC offers a 401(k) plan as part of the employee benefits package. While employer contributions to the plan were discontinued in the year ended June 30, 2004, employees have the option to continue to contribute through deductions from the gross pay each pay period.

**6. Fee Waivers**

PTC provided \$11,285 and \$6,950 for the years ended June 30, 2007 and 2006, respectively, in cash assistance and fee waivers to attendees at events sponsored by PTC.

During the years ended June 30, 2007 and 2006, PTC received \$16,985 and \$6,821, respectively, from sponsoring organizations to provide travel, meals and lodging assistance to qualified attendees at the conference and seminars sponsored by PTC.

**7. Advertising Expense**

PTC's advertising expense was \$34,484 and \$32,982 for the years ended June 30, 2007 and 2006, respectively.

**8. Concentrations of Credit Risk**

Financial instruments which potentially expose PTC to a concentration of credit risk consist principally of cash. The organization places its cash balances with major Hawaii-based financial institutions and, as of June 30, 2007, aggregate cash balances per institution exceeded the federally insured limit by approximately \$558,000.