

# **WIRELESS PHILADELPHIA**

## **Financial Statements**

**June 30, 2006**



**Genesis CPAs, LLC**

**WIRELESS PHILADELPHIA  
FINANCIAL STATEMENTS  
For the year ended June 30, 2006**

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## INDEPENDENT ACCOUNTANT'S AUDIT REPORT

To the Board of Directors of  
Wireless Philadelphia:

We have audited the accompanying statement of financial position of Wireless Philadelphia ("the Organization") as of June 30, 2006 and the related statement of activity and changes in net assets, and cash flows 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.

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 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 Wireless Philadelphia as of June 30, 2006 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

A handwritten signature in black ink that reads "Genesis CPAs".

Genesis CPAs, LLC

Philadelphia, PA  
May 31, 2007

**WIRELESS PHILADELPHIA**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2006**

**ASSETS**

<u>Current Assets</u>	
Cash	\$ 734,488
Prepaid insurance	1,801
Other current assets	754
Total current assets	737,043
 <u>Property and Equipment</u>	
Equipment (net of accumulated depreciation of \$170)	7,379
 <u>Other Assets</u>	
Deposits	500
 TOTAL ASSETS	 \$ 744,922

**LIABILITIES AND NET ASSETS**

<u>Current Liabilities</u>	
Accounts payable & accrued expenses	\$ 48,843
Other current liabilities	1,748
Current portion of long-term debt (Note 3)	-
Total current liabilities	50,591
 <u>Long-term Liabilities</u>	
Note payable (Note 3)	1,450,000
Total Liabilities	1,500,591
 <u>Net Assets</u>	
Unrestricted net assets	(755,669)
 LIABILITIES AND NET ASSETS	 \$ 744,922

The accompanying notes are an integral part of these financial statements.

**WIRELESS PHILADELPHIA**  
**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**For the Year Ended June 30, 2006**

Interest income		\$ 17,448
Operating expenses		
Initiative development consulting		
Technology development	150,000	
Community development	93,203	
Executive management	87,500	
Program management	125,424	
Total initiative development consulting		456,127
Legal fees		267,221
Salaries		28,029
Insurance		6,400
Employee benefits		4,297
Accounting		2,913
Payroll taxes		2,502
Recruitment		1,731
Outreach & promotions		1,461
Travel		1,279
Office supplies		391
Telephone		193
Depreciation expense		170
Bank charges		128
Miscellaneous		126
Printing & postage		119
Training and development		30
Total operating expenses		773,117
Change in net assets		(755,669)
Net assets, beginning of year		-
Net assets, end of year		\$ (755,669)

The accompanying notes are an integral part of these financial statements.

**WIRELESS PHILADELPHIA**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2006**

<u>Cash flows from operating activities</u>	
Net income	\$ (755,669)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	170
(Increase) decrease in current assets:	
Prepaid insurance	(1,801)
Other current assets	(754)
(Increase) decrease in other assets:	
Deposits	(500)
Increase (decrease) in current liabilities:	
Accounts payable & accrued expenses	48,843
Other current liabilities	1,748
	<hr/>
Net cash used by operating activities	(707,963)
 <u>Cash used in investing activities</u>	
Equipment purchases	(7,549)
 <u>Cash provided by financing activities</u>	
Note payable	1,450,000
	<hr/>
Net increase in cash	734,488
Cash, beginning of year	<hr/> -
Cash, end of year	<hr/> <u>\$ 734,488</u>

The accompanying notes are an integral part of these financial statements.

**WIRELESS PHILADELPHIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2006**

**1. ORGANIZATION**

Wireless Philadelphia is a Pennsylvania nonprofit corporation that was formed in March 2005 by the Mayor of Philadelphia. Wireless Philadelphia was organized to operate for the benefit of, to perform the functions of, and to carry out the purposes of the City of Philadelphia.

Specifically, the corporation was formed to lessen the burden of government by developing, implementing and operating a network to provide wireless Internet access throughout the City of Philadelphia; by providing low-cost high speed Internet access to households, businesses and outside areas in the City of Philadelphia; by providing wireless Internet services to the City of Philadelphia; by providing schools, nonprofit organizations and other community organizations with internet access; and by increasing economic development in the City of Philadelphia through availability of wireless internet access.

Digital Inclusion is Wireless Philadelphia's initiative to transform Philadelphia's neighborhoods by making high-speed Internet access more available and affordable. The initiative helps people who are not online gain access with hardware, software, technical support/information, and broadband Internet service, so they can begin to use this technology to improve their educational, employment, health and life opportunities.

Wireless Philadelphia seeks to help all citizens, businesses, schools, and community organizations embrace this technology while strengthening the City's economy, enhancing the visitor experience and streamlining City services.

Wireless Philadelphia is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF ACCOUNTING**

*Basis of Accounting:*

The accompanying financial statements have been prepared on the accrual basis of accounting.

*Financial Statement Presentation*

Wireless Philadelphia follows Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, Wireless

**WIRELESS PHILADELPHIA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended June 30, 2006**

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF ACCOUNTING**  
**(continued)**

Philadelphia is required to report information regarding its financial position and activities according to three classes of net assets as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed requirements.
- Temporarily restricted net assets – Net assets which are subject to donor-imposed requirements that can be fulfilled by actions of the organization or that expire with the passage of time.
- Permanently restricted net assets – Net assets which are subject to donor-imposed requirements that they be maintained permanently by the organization.

As of the June 30, 2006 there were no temporarily or permanently restricted net assets.

*Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of management's estimates, when actual amounts are unknown, which affect the amounts reported in the financial statements. Accordingly, actual amounts may differ from these estimates.

*Cash and Cash Equivalents*

Wireless Philadelphia considers any highly liquid investment with a maturity date of three months or less to be cash equivalents. As of June 30, 2006, the organization did not have any investments of this type.

*Property & Equipment*

Purchased property and equipment are recorded at cost and are depreciated over their estimated useful lives using the straight-line method.

Repairs and maintenance costs are expensed.

**3. NOTE PAYABLE**

On February 24, 2006, the Organization entered into an agreement with Philadelphia Industrial Development Corporation (PIDC) to receive \$1,450,000 in exchange for a non-interest bearing note to be repaid over 3 years. This note required a final payment to be due on December 1, 2009.

**WIRELESS PHILADELPHIA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended June 30, 2006**

**3. NOTE PAYABLE (continued)**

On May 9, 2007, the note was amended to extend the payment terms as follows:

Years Ending June 30,	Amount
2007	\$ -
2008	500,000
2009	460,000
2010	490,000
Total	\$ 1,450,000

As of June 30, 2006, the outstanding balance of \$1,450,000 is recognized as long term debt in the Statement of Financial Position. There is no interest due on the note. In accordance with Accounting Principle Board Statement No. 21 “*Interest on Receivables and Payables*” (APB 21), a note issued solely for cash in which the holder is not entitled to any additional rights or privileges pursuant to the note, is presumed to have a present value equal to the cash proceeds received.

**4. OTHER LONG TERM AGREEMENTS**

*Management Agreement – City of Philadelphia*

On February 21, 2006, Wireless Philadelphia entered into a management agreement with the City of Philadelphia (City) to manage a network agreement with Earthlink, Inc. (see below) for the design, implementation and maintenance of a city-wide wireless broadband network subject to approval by City Council. This management agreement was approved by Bill Number 060160 which was passed by Philadelphia City Council on May, 11, 2006 and was signed by the Mayor of the City on May 25, 2006.

Under this management agreement, Wireless Philadelphia is responsible for oversight of all aspects of the legal and financial relationships between Earthlink and the City including a street light use agreement between Earthlink and the Philadelphia Authority for Industrial Development (an agreement which authorizes Earthlink to install network equipment on City owned street lights).

The management agreement requires Wireless Philadelphia to implement programs to reduce the digital divide in the City. These programs may include but not be limited to supplying reduced rate broadband Internet access, computers, computer training, broader access to online training and education, improving parental involvement in education and conducting outreach to nonprofit organizations, community organizations and individual citizens.

**WIRELESS PHILADELPHIA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended June 30, 2006**

**4. OTHER LONG TERM AGREEMENTS (continued)**

*Management Agreement – City of Philadelphia (continued)*

The term of the management agreement is based upon the term of the network agreement. The network agreement is for a term of 10 years after the date of Proof of Concept Acceptance and provides for optional 5 year term renewals. The Proof of Concept was accepted in May 2007. However, the management agreement may be terminated by the City four years after commencement of the agreement at the sole option of the City.

This management agreement entitles Wireless Philadelphia to compensation in the amount of \$2,000,000 to be paid in 3 installments. The timing of the payments is based upon milestones reached in the network agreement.

*Network Agreement – Earthlink, Inc.*

On February 21, 2006, Wireless Philadelphia entered into a network agreement with Earthlink, Inc. whereby Earthlink is to design, build, install, test, operate, maintain and upgrade a city-wide wireless broadband Internet access system (System). All costs of the System are to be paid by Earthlink. Wireless Philadelphia was authorized by a management agreement with the City of Philadelphia (see above) and by City ordinance to manage the city-wide wireless network project.

The network agreement is for a term of 10 years after the date of Proof of Concept Acceptance and provides for optional 5 year term renewals.

Under the network agreement, Wireless Philadelphia and Earthlink agreed to a revenue sharing arrangement based upon various Internet access products offered over the network after the 2 year period following Proof of Concept Acceptance. The Proof of Concept was accepted in May 2007.

Wireless Philadelphia is substantially responsible for the cost of electricity to power the wireless network. The first payment for the cost of electricity is anticipated in 2009. The network agreement also requires certain payments to be made directly to the City by Earthlink for usage of city street lights.

**WIRELESS PHILADELPHIA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended June 30, 2006**

**5. CONCENTRATIONS OF REVENUE SOURCES AND CREDIT RISK**

Revenue Sources

Currently, the primary revenue sources for Wireless Philadelphia, either directly or indirectly, are Philadelphia's wireless broadband network and Earthlink. The ability of Wireless Philadelphia to meet its future obligations is primarily dependent upon those sources of revenue.

Credit Risk

At June 30, 2006, the Organization had deposits in a single financial institution totaling approximately \$650,821. This balance is \$550,821 in excess of federal depository insurance (FDIC) limits.

**6. DEFINED CONTRIBUTION BENEFIT PLAN**

Effective January 1, 2007 Wireless Philadelphia implemented an Internal Revenue Code Section 403(b) defined contribution retirement plan. The plan requires a quarterly 3% non-elective contribution for all employees. The plan has a 1 year vesting period.

The plan was implemented retroactively to the date of hire for individuals who were employed prior to January 1, 2007. Retroactive pension costs of \$841 have been recognized for the year ended June 30, 2006.

**7. DONATED OFFICE SPACE**

During the year ended June 30, 2006, office space was provided to one employee in a small area of a property owned by the City of Philadelphia. The value of this donated space is considered immaterial and as a result, it is not recognized in the Statement of Activities.

**8. OFFICE SPACE LEASES**

Subsequent to the financial statement date, the Organization entered into operating leases for office space with Innovation Philadelphia and The Philadelphia Building Associates, LLC.

The lease with Innovation Philadelphia was effective for the period September 1, 2006 through February 28, 2007.

**WIRELESS PHILADELPHIA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended June 30, 2006**

**8. OFFICE SPACE LEASES (continued)**

As of March 1, 2007, the Organization entered into a new 5 year lease agreement with The Philadelphia Building Associates, LLC.

Total future minimum lease payments under these agreements are as follows:

Years Ending June 30,	Amount
2007	\$ 38,236
2008	63,033
2009	66,133
2010	69,233
2011	72,333
Total	<u>\$ 308,968</u>

**9. EQUIPMENT LEASE**

As of March 1, 2007, the organization entered into a 3 year copier equipment lease agreement with Rico Business Systems.

Total future minimum lease payments under this agreement are as follows:

Years Ending June 30,	Amount
2007	\$ 1,049
2008	3,146
2009	3,146
2010	2,098
Total	<u>\$ 9,439</u>

**10. FUNCTIONAL CLASSIFICATION OF EXPENSES**

The functional classification of expenses is based upon the specific identification of expenses as direct costs related to Wireless Philadelphia's tax exempt purpose or as indirect costs. The functional classification of expenses, for the year ended June 30, 2006, is as follows:

Program Services	\$ 474,582
Management & General	<u>298,535</u>
Total Expenses	<u>\$ 773,117</u>