

WIRELESS PHILADELPHIA

Financial Statements

June 30, 2007



Genesis CPAs, LLC

**WIRELESS PHILADELPHIA
FINANCIAL STATEMENTS
For the year ended June 30, 2007**

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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, 2007, and the related statements 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. The prior year summarized comparative information has been derived from the Organization's 2006 financial statements and, in our report dated May 31, 2007, 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 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, 2007 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
January 30, 2008

WIRELESS PHILADELPHIA
STATEMENT OF FINANCIAL POSITION
As of June 30, 2007 and 2006

ASSETS

	2007	2006
<u>Current Assets</u>		
Cash	\$ 1,091,413	\$ 734,488
Contribution receivable	35,000	-
Prepaid insurance	7,784	1,801
Other current assets	35	754
Total current assets	1,134,232	737,043
<u>Property and Equipment</u>		
Furniture & equipment, net of accumulated depreciation of \$3,791 and \$170, respectively	30,737	7,379
<u>Other Assets</u>		
Deposits	10,500	500
TOTAL ASSETS	\$ 1,175,469	\$ 744,922

LIABILITIES AND NET ASSETS

<u>Current Liabilities</u>		
Accounts payable & accrued expenses	\$ 95,249	\$ 48,843
Other current liabilities	920	1,748
Total current liabilities	96,169	50,591
<u>Long-term Liabilities</u>		
Network electricity payable (Note 4)	38,493	-
Note payable (Note 3)	1,450,000	1,450,000
Total liabilities	1,584,662	1,500,591
<u>Net Assets</u>		
Unrestricted net assets (deficiency)	(559,193)	(755,669)
Temporarily restricted net assets	150,000	-
Total net assets	(409,193)	(755,669)
TOTAL LIABILITIES AND NET ASSETS	\$ 1,175,469	\$ 1,500,591

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

WIRELESS PHILADELPHIA
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
For the years ended June 30, 2007
(with comparative totals for the year ended June 30, 2006)

	2007			2006
	Unrestricted	Temporarily Restricted	Total	Total
Revenue and support				
Network management fees	\$ 1,000,000	\$ -	\$ 1,000,000	\$ -
Grant revenue	15,000	150,000	165,000	-
Contributions	166,967	-	166,967	-
Program service revenue	67,722	-	67,722	-
Interest income	17,649	-	17,649	17,448
Total revenue and support	<u>1,267,338</u>	<u>150,000</u>	<u>1,417,338</u>	<u>17,448</u>
Expenses				
Salaries	409,413	-	409,413	28,029
Initiative development consulting	102,000	-	102,000	456,127
Fundraising expense	90,787	-	90,787	-
Professional fees	101,779	-	101,779	270,134
Community outreach & promotions	69,520	-	69,520	1,461
Website development	31,054	-	31,054	-
Occupancy costs	50,204	-	50,204	-
Employee benefits	40,509	-	40,509	4,297
Digital Inclusion program	39,156	-	39,156	-
Network electricity expense	38,493	-	38,493	-
Office expenses	35,145	-	35,145	703
Payroll taxes	33,789	-	33,789	2,502
Travel	8,055	-	8,055	1,279
Meetings and events	7,712	-	7,712	-
Miscellaneous expense	6,389	-	6,389	156
Depreciation expense	3,621	-	3,621	170
Insurance	2,365	-	2,365	6,400
Bank charges	871	-	871	1,859
Total expenses	<u>1,070,862</u>	<u>-</u>	<u>1,070,862</u>	<u>773,117</u>
Change in net assets	196,476	150,000	346,476	(755,669)
Net assets, beginning of year (deficiency)	<u>(755,669)</u>	<u>-</u>	<u>(755,669)</u>	<u>-</u>
Net assets, end of year (deficiency)	<u>\$ (559,193)</u>	<u>\$ 150,000</u>	<u>\$ (409,193)</u>	<u>\$ (755,669)</u>

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

WIRELESS PHILADELPHIA
STATEMENT OF CASH FLOWS
For the years ended June 30, 2007
(with comparative totals for the year ended June 30, 2006)

	<u>2007</u>	<u>2006</u>
<u>Cash flows from operating activities</u>		
Change in unrestricted net assets	\$ 346,476	(755,669)
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	3,621	170
(Increase) decrease in current assets:		
Contributions receivable	(35,000)	-
Prepaid insurance	(5,983)	(1,801)
Other current assets	719	(754)
(Increase) decrease in other assets:		
Deposits	(10,000)	(500)
Increase (decrease) in current liabilities:		
Accounts payable & accrued expenses	46,406	48,843
Other current liabilities	(828)	1,748
Network electricity payable	38,493	-
Net cash provided (used) by operating activities	383,904	(707,963)
<u>Cash used in investing activities</u>		
Furniture and equipment purchases	(26,979)	(7,549)
<u>Cash provided by financing activities</u>		
Note payable	-	1,450,000
Net increase in cash	356,925	734,488
Cash, beginning of year	734,488	-
Cash, end of year	<u>\$ 1,091,413</u>	<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, 2007

(with comparative information for the year ended June 30, 2006)

1. ORGANIZATION

Wireless Philadelphia is a Pennsylvania nonprofit corporation that was formed in March 2005 by the City 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 utilize wireless Internet 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, 2007
(with comparative information 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.

There were no permanently restricted net assets as of June 30, 2007 and 2006.

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, 2007 and 2006, the organization did not have any investments of this type.

Furniture & 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 the 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, 2007
(with comparative information for the year ended June 30, 2006)

3. NOTE PAYABLE (continued)

On May 9, 2007, the note was amended to extend the payment terms. In November 2007 the debt was cancelled by PIDC.

As of June 30, 2007 and 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 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.

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 (POCA) 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.

WIRELESS PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the year ended June 30, 2007
(with comparative information for the year ended June 30, 2006)

4. OTHER LONG TERM AGREEMENTS (continued)

Management Agreement – City of Philadelphia (continued)

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. For the year ended June 30, 2007, \$250,000 was received on October 16, 2006 and \$750,000 was received on June 21, 2007 under this 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 POCA and provides for optional 5 year term renewals.

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 POCA. The Proof of Concept was accepted in May 2007.

Wireless Philadelphia is substantially responsible for the cost of electricity to power network equipment installed on City street lights. Earthlink is required to advance the funds for electricity costs incurred for the first 2 years. As of June 30, 2007 and 2006, the estimated unbilled liability for electricity costs associated with the network were \$38,493 and \$0, respectively. The first payment for electricity is anticipated in 2009 and is reflected in the financial statements as network electricity payable. Subsequent to the initial 2 year period, the percentage of electricity cost that Wireless Philadelphia is responsible for paying varies based upon the results of operation of the network. The payment could be as high as 100% or as low as 0% which is to be determined on a monthly basis.

The network agreement also requires certain payments to be made directly to the City by Earthlink for usage of city street lights for network equipment.

WIRELESS PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the year ended June 30, 2007
(with comparative information 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's operating support, either directly or indirectly, are Philadelphia's wireless broadband network and Earthlink. The Organization must also raise funds to support its programs. The ability of Wireless Philadelphia to meet its future obligations is dependent upon these sources of revenue.

Credit Risk

As of June 30, 2007 and 2006, the Organization had deposits in financial institutions totaling \$822,226 and \$550,821, respectively, 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. Pension costs for the years ended June 30, 2007 and 2006 were \$12,402 and \$841, respectively. Pension costs are included in the Statement of Activities as employee benefits.

7. DONATED OFFICE SPACE

During the years ended June 30, 2007 and 2006, office space was provided 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

During the year ended June 30, 2007, 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, 2007
(with comparative information 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 this agreement are as follows:

Years Ending June 30,	<u>Amount</u>
2008	\$ 63,033
2009	66,133
2010	69,233
2011	<u>72,333</u>
Total	<u>\$ 270,732</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,	<u>Amount</u>
2008	\$ 3,146
2009	3,146
2010	<u>2,098</u>
Total	<u>\$ 8,390</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 years ended June 30, 2007 and 2006, are as follows:

	<u>2007</u>	<u>2006</u>
Program services	\$ 747,806	\$ 474,582
Management & general	234,502	298,535
Fundraising	<u>88,554</u>	<u>-</u>
Total expenses	<u>\$ 1,070,862</u>	<u>\$ 773,117</u>