MARSHALL ISLANDS
NATIONAL TELECOMMUNICATIONS AUTHORITY

(A COMPONENT UNIT OF THE
REPUBLIC OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2016

MARSHALL ISLANDS
NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

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Year Ended September 30, 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands National Telecommunications Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands National Telecommunications Authority (NTA), a component unit of the Republic of the Marshall Islands, which comprise the statement of net position as of September 30, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows 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 accounting principles generally accepted in the United States of America; this includes 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 financial position of NTA as of September 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte.

Emphasis-of-Matter

Going Concern

The accompanying financial statements have been prepared assuming that NTA will continue as a going concern. As discussed in Note 11 to the financial statements, NTA has suffered recurring losses from operations. NTA is in default on its loan agreements and has failed to make scheduled principal and interest payments during 2016. NTA is not aware of any alternate sources of capital to meet its obligations. Those factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 11 to the financial statements. 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 this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of NTA's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2017 on our consideration of NTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NTA's internal control over financial reporting and compliance.

Deloitte & Touche LLP

June 5, 2017

INTRODUCTION

The following unaudited management's discussion and analysis (MD&A) is required supplementary information.

Overview of the Financial Statements and Financial Analysis

The Marshall Islands National Telecommunications Authority (the Company or NTA) is pleased to present its financial statements for fiscal year 2016 with fiscal year 2015 prior year data presented for comparative purposes. There are four financial statements presented: the statement of net position, the statement of revenues and expenses, the statement of changes in net position, and the statement of cash flows.

This discussion and analysis of NTA's financial statements provides an overview of its financial activities for the year.

Statement of Net Position

The statement of net position presents the assets, liabilities, and net position as of the end of the fiscal year. The statement of net position is a point of time financial statement. The purpose of the statement of net position is to present to the readers of the financial statements a fiscal snapshot of the Company. The statement of net position presents end of year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets minus liabilities). Significant statement of net position items are discussed in the footnotes to the financial statements.

From the data presented, readers of this statement of net position are able to determine the assets available to continue in the operation of the Company. They also are able to determine how much the Company owes vendors, investors and lending institutions. Finally, the statement of net position provides a picture of the net position (assets minus liabilities), which is a useful indicator of whether the financial position of the Company is improving or deteriorating.

The total assets of the Company decreased by $1,115,000 from fiscal year 2015.

Net current assets increased by $557,260. Cash and certificates of deposit increased by $732,500.

Net accounts receivable decreased by $165,250 in 2016.

Inventories of materials and supplies decreased by $10,000 in 2016.

Telecommunications plant in service decreased by $6,624,500 during the year. Plant under construction increased by $99,000, mostly for providing outer island DAMA facilities to the Ministry of Health and for providing GSM services to Arno and Enewetak. Refer below for additional discussion on NTA's capital assets and debt administration.

Net current liabilities, other than principal portions of long-term debt, increased by $417,500.

Statement of Net Position (Continued)

The accounts payable increased by $59,885, liability for customer deposits increased by $57,650 in 2016.

The Company reduced its debt with RUS by $1,480,000 during the year. This was made possible from the proceeds of $1,344,500 in subsidy from RepMar. In FY2014, the Company did not receive any subsidies from RepMar for RUS loans. NTA remains in default with the terms of the loan agreements as discussed in the long-term debt and liquidity and capital resources section of this analysis.

The total liabilities of the Company decreased by $1,421,250 from fiscal year 2015.

The total net position of the Company is affected by the changes in both assets and liabilities resulting in a net increase in the amount of $304,000.

Condensed Statements of Net Position:

	2016	2015
Assets:		
Current and other assets	$ 8,763,478	$ 3,352,818
Capital assets	21,759,810	28,285,348
Total assets	$ 30,523,288	$ 31,638,166
Liabilities:		
Current and other liabilities	$ 1,651,744	$ 1,292,979
Long-term debt	24,581,466	26,361,478
Total liabilities	26,233,210	27,654,457
Net Position:		
Net investment in capital assets	2,031,745	1,923,870
Unrestricted net position	2,258,333	2,059,839
Total net position	4,290,078	3,983,709
Total liabilities and net position	$ 30,253,288	$ 31,638,166

Capital assets decreased by $6,525,500 primarily as a result of the reclassification of an Indefeasible Right of Use (IRU) in the amount of $5,113,500 associated with the Company's fiber optic cable services. Current and other assets increased by $5,365,750 due to the reclassification of the IRU.

Long-term debt decreased by $1,780,000 due to principal repayment of $1,480,000 on RUS notes payable and $300,000 on loan payable to RepMar. Current and other liabilities increased by $313,750 due to a cash advance received from RepMar for the purpose of providing funding for the 4G LTE Project.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the statement of net position and stockholders' equity are based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of the statement is to present the revenues received by the Company, both operating and non-operating, and expenses paid by the Company, operating and non-operating, any other revenues, expenses, gains, and losses received or spent by the Company.

Generally speaking, operating revenues are received for providing telecommunications goods and services to various customers. Operating expenses are those expenses paid to acquire or produce the goods or services provided in return for the operating revenues and to carry out the mission of the Company. Nonoperating revenues are revenues received for which goods or services are not provided.

For example, investment income is non-operating because it is earned without providing telecommunications goods or services.

The statement of revenues and expenses reflects an improvement in 2016 over 2015; however, business operations still carries a loss even though the Company finished 2016 with an overall increase in net position at the end of the year. Highlights of the information presented in the statement of revenues, expenses, and change in net position are as follows:

Condensed Statements of Revenues, Expenses, and Changes in Net Position:

	2016	2015
Revenues:		
Operating revenues	$ 8,530,097	$ 8,430,669
Nonoperating revenues	1,669,134	1,883,271
Total revenues	10,199,231	10,313,940
Expenses:		
Operating expenses	8,640,811	8,644,472
Nonoperating expenses	1,254,461	1,732,313
Total expenses	9,895,272	10,376,785
Change in net position	$ 303,959	$ (62,845)

Over a period of several years, NTA has upgraded existing services and introduced entirely new services. The introduction of modern Internet services made possible by the fiber optic cable has provided businesses and residential customers with unprecedented access. But, these new services have come at the expense of revenue from local and long distance network services, which have been replaced via high speed internet access.

Overall, NTA's revenues since the period prior to access to the transpacific fiber optic cable have an average of $8.03M from 2008 through 2016, increasing slightly in the last four (4) years; however, revenue increases from services from access to the cable have been offset by losses of traditional telephone, fax and Internet café revenues.

NTA has strived to maintain low rates by regional standards, and the result has been similar total revenue numbers over these years despite the changes in individual revenues as technology changes the way our customers use telecommunications services. In 2014, NTA increased customer internet speeds at no additional cost as upgrades to service. NTA plans to cap data usage, as is common in bigger markets, to limit abuse and to decrease bandwidth costs.

Since the RMI domestic market is small, NTA has been reaching out to regional telecommunication companies to market its services. The Company had customers in Kiribati and the Solomon islands, and is in discussions to increase services in these markets and expand into others. In 2014, the Company began providing internet service to Kwajalein Range Services for the U.S. Army base on Kwajalein, and expanded internet service to the University of South Pacific in Majuro.

Total operating expenses decreased in 2016 from 2015 in the amount of $3,600.

Depreciation expense increased by $115,300 in 2016 as NTA's upgraded GSM and other equipment were placed in service, offsetting decreased depreciation of old plant that has become fully depreciated.

Cash operating expense decreased by $119,000 in 2016. Net plant specific expenses decreased in the amount of $446,700 during the year primarily due to higher expenses for plant related and cellular systems upgrade incurred in prior year. Net plant non-specific expenses increased in the amount of $123,900 due to higher materials and supplies expenses incurred during the year. Corporate operations expenses increased in the amount of $203,000 for general and administrative expenses. Customer operations expenses barely increased by $900 due to lower purchase of cell and subscriber identification module (*SIM*) cards.

Nonoperating revenues decreased by $214,000 in 2016 while nonoperating expenses decreased by $477,900 in 2016. The decrease in nonoperating revenues is primarily the result of a reduction in RepMar loan subsidies received by NTA whereas the decrease in nonoperating expenses is primarily due to a loss in the prior year on retirement of capital assets. In 2015, it was determined that the billing system, which NTA had been trying to implement since 2012, would not meet the Company's needs and was written off, recording a loss of $433,000. NTA has been using a modified Internet Service Provider (ISP) billing system for telecom billing since its telecom billing system crashed in 2011, and will need to purchase a modern billing system when funds permit. The successive receipt of RUS loan subsidies from RepMar of $1,644,500 in 2016 and $1,863,000 in 2015 is a potential game-changer that could revitalize the operation; no subsidy was provided in 2014.

Interest expense decreased by $93,800 due to the payment on delinquent RUS loans funded by RepMar loan subsidies.

Capital Asset and Debt Administration

Capital Assets

Throughout 2013 to 2016, NTA completed the hub and the majority of outer islands sites for its Demand Assigned Multiple Access (DAMA) system that brings modern telecommunications to the outer islands that generally do not even have electricity. Outer Island dispensaries, schools, and the general public will have access to the world via these sites. NTA is still in the process of installing additional outer island DAMA centers to be owned by the Ministry of Health.

Capital Assets, Continued

A summary of NTA's capital assets for 2016 and 2015 is presented as follows:

	2016	2015
General support assets	$ 9,505,529	$ 10,995,619
Central office assets	13,713,046	21,428,485
Cable and wire facilities assets	11,984,532	27,657,960
Wireless phone assets	5,738,945	6,011,410
Wireless television assets	1,232,851	1,226,214
	42,174,903	67,319,688
Less accumulated depreciation	21,233,735	39,754,084
	20,941,168	27,565,604
Plant under construction	818,642	719,744
	$ 21,759,810	$ 28,285,348

Refer to Note 4 to the accompanying financial statements for additional discussion on NTA's capital assets.

NTA operates in a technology and capital intensive industry and must continually upgrade and replace equipment to meet international telecommunications standards. To upgrade our aging GSM cell phone system, the Company purchased a modern digital switch. The engineers installing the switch inspected the entire GSM system, and recommended replacing old equipment and purchasing new equipment to be able to provide reliable service to all of our customers in Majuro and Ebeye. The total cost of the new switch and remote equipment will exceed $1,000,000. Since the implementation of the fiber optic cable project in 2010 and its high debt service requirements, the Company has not had the capital to stay current with system maintenance and upgrade requirements.

In August 2016, NTA entered into a 6-year master services agreement with a vendor for the purpose of providing 4G LTE services to NTA, which NTA will re-sell to its customers. Under the terms of the Build-Operate-Transfer (BOT) agreement, the investor partner would finance and operate the LTE Project at minimal cost to NTA. Upon commencement of services, the vendor will be reimbursed from net project revenues, which are defined as new revenue generated by the project less NTA expense directly related to the project, and NTA lost revenues, which are defined as revenues lost from existing NTA services as a result of the new 4G LTE Project.

The 4G LTE service was launched on March 31, 2017.

Long-Term Debt

In FY 2009, the Company entered into an $18,500,000 RUS loan to finance part of the $21,400,000 investment in the fiber optic cable project linking Kwajalein and Majuro to Guam. The small domestic market does not provide enough revenue opportunities to service this amount of debt, and NTA has been reliant upon government subsidies in 2012 and 2013 to meet its debt obligations. The Company did not receive any subsidies in 2010 or 2011, and in 2012 was forced to default on the loan payments. The RepMar government as guarantor was required to make loan subsidy payments to NTA in order for the Company to make payments on the delinquent loans. In 2013, the Company began making reduced monthly loan payments covering slightly more than loan interest. No subsidies were provided by RepMar in 2014.

Long-Term Debt, Continued

At September 30, 2015, NTA owed $1,100,000 in RUS loan arrearages. In 2016, RepMar provided a subsidy payment of $1,294,000, which allowed NTA to make payments on its RUS arrearages. At September 30, 2016, NTA owed RUS $1,218,320 in loan payment arrearages. In FY 2017, RepMar provided a subsidy payment of $2,200,000 to NTA to pay for past arrearages with RUS. In February 2017, RepMar transferred $1,800,000 to NTA from the $2,200,000 that was appropriated in the FY 2017 national budget. The transfer allowed NTA to come current with its arrearages with RUS. Since the February 2017 transfer of $1,800,000, RepMar has not paid NTA the remaining $400,000 that was appropriated in the national budget. As of the date of this report, NTA owes RUS $212,716.

NTA has been in discussions with RUS since its initial default in 2012. RUS has agreed to a tentative solution to ease loan terms with a guarantee from RepMar. Management is in discussions with RepMar on the proposed guarantee.

Under the terms of the RUS loans, the Company is required to maintain a minimum times interest earned ratio and as of September 30, 2016 and 2015, was in violation of this covenant. As loans are currently in default, total principal balance of approximately $23,881,500, from the RUS long-term debt has been reclassified as current liabilities at September 30, 2016.

In 2011, the Company entered into a $1,000,000 loan agreement with RepMar to be paid in 10 annual installments of $100,000. The Company was unable to make repayments from 2012 through 2015 and, as a result, NTA is also currently in default. In 2016, a non-cash operating subsidy from RepMar of $300,000 was used to partially pay the outstanding loan. The loan has been reclassified as a current liability as of September 30, 2016 in the amount of $700,000.

NTA does not have any available sources of credit. The Company has outstanding loans as discussed above, and is precluded from acquiring additional debt by the terms of the Rural Utilities Service loan.

Refer to Note 6 to the accompanying financial statements for additional discussion on NTA's long-term debt.

Economic Outlook

Legislation has been proposed to open the telecommunications market of the Republic of the Marshall Islands to competition. It is the opinion of NTA management that this could have a significantly adverse effect on the financial condition of the Company in such a small market. NTA has modern equipment and tariffs that we feel are very reasonable when compared to other telecommunications companies in the Pacific region and considering the cost of providing such services. The Company has strived to keep rates affordable to our customers and to provide new service, thus stimulate usage but sales have been sluggish and the Company has recorded operating losses in the last few years.

RepMar is also in the process of contemplating revisions to the national and local tax structures. Under the tax legislation as proposed, the Company will be subject to corporate income tax, although currently exempt from the gross revenue tax. This may require an increase to rates accordingly, which may have the effect of decreasing customer usage and our net revenue.

Additionally, the new tax structure will implement Value Added Tax (VAT) for the first time in the Republic, and the legislation as proposed will require NTA to assess VAT on its customers although other utilities would be exempted. The Company believes this additional tax burden to our customers will decrease customer usage and revenue.

Financial Contact

This discussion and analysis is designed to provide MINTA's customers and other interested parties with an overview of MINTA's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wishes to request additional financial information, please contact the Marshall Islands National Telecommunications Authority President/CEO at P.O. Box 1169, Majuro MH 96960.

MARSHALL ISLANDS
NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Statement of Net Position
September 30, 2016

ASSETS		
Current assets:		
Cash and cash equivalents	$	1,693,982
Time certificates of deposit		763,288
Accounts receivable, net of an allowance for doubtful accounts of $750,541		333,407
Receivables from affiliates		522,143
Advances to employees		15,800
Inventory		256,903
Other receivables		304,130
Other current assets		20,424
Total current assets		3,910,077
Capital assets:		
Nondepreciable capital assets		818,642
Capital assets, net of accumulated depreciation		20,941,168
Indefeasible right of use, net		4,853,401
	$	30,523,288
LIABILITIES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	$	24,581,466
Accounts payable, trade		402,611
Accounts payable, affiliates		266,670
Advance from RepMar		300,000
Customer deposits and advance billings		456,975
Other accrued liabilities		225,488
Total liabilities		26,233,210
Commitments and contingencies		
Net position:		
Net investment in capital assets		2,031,745
Common stock, $10 par value, 360,000 shares authorized; 317,887 shares issued; 317,256 shares outstanding		3,600,000
Additional paid in capital		773,761
Treasury stock, at par value, 468 shares		(4,680)
Unrestricted		(2,110,748)
Total net position		4,290,078
	$	30,523,288

See accompanying notes to financial statements.

MARSHALL ISLANDS
NATIONAL TELECOMMUNICATIONS AUTHORITY
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Statement of Revenues and Expenses
Year Ended September 30, 2016

Operating revenues:	
Private line access	$ 4,368,077
Local cellular network services	1,952,076
Long distance network services	1,230,822
Local network services	921,413
Wireless television services	268,253
Internet café	7,245
Miscellaneous	99,307
Bad debt expense	(317,096)
Total operating revenues	8,530,097
Operating expenses:	
Plant specific operations	2,939,689
Depreciation and amortization	2,791,120
Plant nonspecifc operations	1,391,319
Corporate operations	801,349
Consumer operations	717,334
Total operating expenses	8,640,811
Loss from operations	(110,714)
Nonoperating revenues (expenses):	
Operating grant from RepMar	1,644,465
Interest and dividends	24,669
Loss on retirement of capital assets	(84,469)
Interest expense	(1,169,992)
Total nonoperating revenues (expenses), net	414,673
Change in net position	$ 303,959

See accompanying notes to financial statements.

MARSHALL ISLANDS
NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Statement of Changes in Net Position
September 30, 2016

	Net investment in capital assets	Common stock	Additional paid in capital	Treasury stock	Unrestricted	Total
Balance, October 1, 2015	$ 1,923,870	$ 3,600,000	$ 771,351	$ (4,680)	$ (2,306,832)	$ 3,983,709
Sale of 163 shares of common stock for cash, less stock subscriptions receivable and par value due to RepMar	-	-	2,410	-	-	2,410
2016 change in net investments in capital assets	107,875	-	-	-	(107,875)	-
Change in unrestricted net position	-	-	-	-	303,959	303,959
Balance, September 30, 2016	$ 2,031,745	$ 3,600,000	$ 773,761	$ (4,680)	$ (2,110,748)	$ 4,290,078

See accompanying notes to financial statements.

MARSHALL ISLANDS
NATIONAL TELECOMMUNICATIONS AUTHORITY
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Statement of Cash Flows
Year Ended September 30, 2016

Cash flows from operating activities:		
Cash received from customers	$	8,768,810
Cash payments to suppliers for goods and services		(4,035,124)
Cash payments to employees for services		(1,819,312)
Net cash provided by operating activities		2,914,374
Cash flows from noncapital financing activities:		
Proceeds from the issuance of common stock		2,410
Proceeds of advance from RepMar		300,000
RepMar operating grant received		1,344,465
Net cash provided by noncapital financing activities		1,646,875
Cash flows from capital and related financing activities:		
Additions to property, plant and equipment		(1,203,452)
Principal paid on RUS long-term debt		(1,480,012)
Interest paid on RUS long-term debt		(1,169,992)
Net cash used for capital and related financing activities		(3,853,456)
Cash flows from investing activities:		
Net increase in time certificates of deposits		(22,967)
Interest received		24,669
Net cash provided by investing activities		1,702
Net change in cash and cash equivalents		709,495
Cash and cash equivalents at beginning of year		984,487
Cash and cash equivalents at end of year	$	1,693,982
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	$	(110,714)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization		2,791,120
Provision for doubtful accounts		317,096
(Increase) decrease in assets:		
Accounts receivable		(132,170)
Advances to employees		(15,800)
Inventory		10,014
Other receivables		(3,863)
Other current assets		(74)
Increase (decrease) in liabilities:		
Accounts payable		257,770
Customer deposits		57,650
Other accrued liabilities		(197,885)
Other noncurrent liabilities		(58,770)
Net cash provided by operating activities	$	2,914,374
Summary disclosure of noncash activities:		
Repayment of RepMar loan payable:		
Operating grant from RepMar	$	300,000
Long-term debt		(300,000)
	$	-
Retirement of capital assets:		
Nondepreciable capital assets	$	50,979
Depreciable capital assets		19,698,269
Accumulated depreciation		(19,664,779)
Loss on retirement of capital assets		(84,469)
	$	-

See accompanying notes to financial statements.

(1) Organization

The Marshall Islands National Telecommunications Authority (NTA), a component unit of the Republic of the Marshall Islands (RepMar), is a local exchange carrier (LEC) and an international exchange carrier providing local telephone service, cellular service, internet access, long distance telecommunication services, and digital wireless TV. NTA serves commercial and residential customers in the Marshall Islands.

NTA was created under Public Law 1987-15, which was subsequently repealed and replaced by Public Law 1990-105. NTA commenced operations on May 1, 1987. Prior to the creation of NTA, telecommunication services in the Marshall Islands were administered under RepMar's Ministry of Transportation and Communications.

On October 9, 1990, Public Law 1990-105 was passed, which changed the name of NTA to the Marshall Islands National Telecommunications Authority and also established NTA as a corporation. An appraisal of NTA's property acquired as of April 27, 1987, was conducted, and in accordance with Public Law 1990-105, the appraised amount constituted the aggregate par value of the authorized capital stock of NTA. Pursuant to the results of the appraisal, as of December 20, 1990, the Board of Directors of NTA determined the initial capital of NTA to be $3,600,000.

Of the initial capital, stock of $900,000 (90,000 shares of $10 par value common stock) was issued to RepMar on December 2, 1991. The remaining 270,000 shares of common stock were considered to be unissued capital stock owned by RepMar because RepMar has full voting rights and dividend rights on the unissued shares until they are purchased by the public.

Initially, the unissued shares were offered for sale only to citizens of the Republic of the Marshall Islands under a prospectus dated November 25, 1991. In 2001 and 2002, Public Law 1990-105 was amended to increase the ownership of shares of NTA from a maximum two percent (2%) to fifty percent (50%) of total authorized stock. In addition to other changes, ownership status was changed to add legal residents, foreign investors, corporations, or entities of the Republic of the Marshall Islands as defined by public law.

Pursuant to Public Law 1990-105, $10 of the proceeds of each share of the originally unissued common stock sold to private investors will be disbursed to RepMar. The intent of the law is for the $10 per share payment to constitute a return of capital originally contributed by RepMar.

RepMar owns a voting majority of NTA stock and has unconditionally guaranteed the majority of NTA's RUS debt.

(2) Summary of Significant Accounting Policies

Basis of Accounting

NTA maintains a chart of accounts in accordance with the Uniform System of Accounts for telephone companies of the United States Federal Communications Commission's Rules, and in conformity with accounting principles generally accepted in the United States of America (GAAP). Additionally, NTA utilizes the accrual basis of accounting.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No.'s 37 and 38, establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted - net position whose use by NTA is subject to externally imposed stipulations that can be fulfilled by actions of NTA pursuant to those stipulations or that expire by the passage of time. NTA has no restricted net position at September 30, 2016.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by NTA. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified in the statement of net position.

Accounts Receivable

Telecommunications accounts receivable are due from businesses and individuals located within and outside of the Marshall Islands and are interest free and uncollateralized. International carrier receivables are due from entities within the United States, Japan, Fiji, Australia, and New Zealand, and are included in other accounts receivable.

Accounts receivable are stated at the amount management expects to collect on outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection effects are written off through a charge to the valuation allowance and a credit to accounts receivable.

Materials and Supplies

Materials and supplies are valued at cost, which approximates market, using the first-in-first-out (FIFO) method.

Plant under Construction

Plant under construction represents the accumulated costs of unfinished capital projects. These costs are capitalized as property, plant and equipment upon completion of each project.

(2) Summary of Significant Accounting Policies, Continued

Property, Plant and Equipment

Property, plant and equipment are stated at cost. NTA follows the capitalization policy prescribed by the FCC for regulated telephone companies. This policy requires the capitalization of all assets regardless of cost except for certain general support and central office assets costing less than $2,000, which are expensed when purchased. The cost of maintenance and repairs is charged to operating expenses.

Plant and equipment on hand at September 30, 1989, was valued by an independent source in order to determine estimated cost. All other assets are valued at actual purchase cost.

Property, plant, and equipment are depreciated using the straight-line method based on the estimated useful lives of the respective assets.

Indefeasible Right of Use

NTA has capitalized the cost of acquisition of the exclusive right to use a specified amount of fiber capacity for a period of time, which is amortized over the length of the term of the capacity agreement on the straight line method.

Valuation of Long-Lived Assets

NTA, using its best estimates based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. During the year ended September 30, 2016, no assets had been written down.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. NTA has no items that qualify for reporting in this category.

Deposits and advance billings

Deposits and advance billings include amounts received for telecommunications services prior to the end of the fiscal year but related to the subsequent accounting period.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. NTA has no items that qualify for reporting in this category.

(2) Summary of Significant Accounting Policies, Continued

Revenue Recognition and Classification

Billings for basic area revenue and private line access revenues are rendered monthly in advance. Advance billings are accrued and are subsequently adjusted based on actual usage in the period earned. Prepaid card revenues are recorded when the cards are sold and subsequently reclassified to cellular services revenues based on the actual usage of the prepaid card.

Long distance network services revenues based on a per-minute charge paid by the end user or other telecommunications service providers. These revenues are billed in arrears, but are recognized in the month that service is provided.

NTA records all revenue generated from providing telecommunications services as operating revenue, including local service, long distance, internet, and cellular services. Non-operating revenues and expenses result from capital, financing and investing activities and consist of interest income, interest paid on long-term debt, and grant funds received.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross revenue tax of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, sales of telecommunications services by public utility companies are exempt from gross revenue tax. Accordingly, NTA is exempt from this tax relating to gross revenue from sales of telecommunications services.

New Accounting Standards

During the year ended September 30, 2016, NTA implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application,* which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Corporation Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

The implementation of these statements did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

GASB Statement No. 73*, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statement No. 67 and No. 68 with the reporting requirements in Statement No. 68. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14,* which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73,* which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

Management Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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.

(3) Deposits

The deposit and investment policies of NTA are governed by the Board of Directors. As such, the Board of Directors is authorized to delegate certain responsibilities to third parties. Investment managers have discretion to purchase, sell, or hold the specific securities to meet the objectives set forth in the investment policy.

Generally, NTA can invest in bonds and other indebtedness of the U.S. and in preferred or common stock of any corporation created or existing under the laws of the U.S. or any U.S. state, territory, or commonwealth. Additionally, a maximum of 25% of the total portfolio may be invested in non-U.S. equities.

Custodial credit risk is the risk that in the event of a bank failure, NTA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in NTA's name. NTA does not have a deposit policy for custodial credit risk.

(3) Deposits, Continued

As of September 30, 2016, the carrying amount of NTA's total cash and cash equivalents and time certificates of deposit was $2,457,270 and the corresponding bank balances were $2,609,934. Of the bank balances, $1,752,300 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of $857,634 is maintained in a financial institution not subject to not subject to depository insurance. As of September 30, 2016, bank deposits in the amount of $250,000 were FDIC insured. NTA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. NTA has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

(4) Capital Assets

Capital asset activities for the year ended September 30, 2016 are as follows:

	Estimated Useful Lives	Balance October 1, 2015	Additions	IRU Transfer	Transfers and Retirements	Balance September 30, 2016
Nondepreciable capital assets:						
Plant under construction		$ 719,744	$ 931,564	$ -	$ (832,666)	$ 818,642
Depreciable capital assets:						
General support assets	5 - 40 yrs	10,995,619	72,578	-	(1,562,668)	9,505,529
Central office assets	5 - 20 yrs	21,428,485	183,578	-	(7,899,017)	13,713,046
Cable and wire facilities assets	20 - 25 yrs	27,657,960	-	(6,500,091)	(9,173,337)	11,984,532
Wireless phone assets	15 yrs	6,011,410	69,843	-	(342,308)	5,738,945
Wireless television assets	5 - 10 yrs	1,226,214	6,637	-	-	1,232,851
		67,319,688	332,636	(6,500,091)	(18,977,330)	42,174,903
Less accumulated depreciation		(39,754,084)	(2,531,116)	1,386,686	19,664,779	(21,233,735)
Depreciable capital assets, net		27,565,604	(2,198,480)	(5,113,405)	687,449	20,941,168
		$ 28,285,348	$ (1,266,916)	$ (5,113,405)	$ (145,217)	$ 21,759,810

Subsequent to the issuance of NTA's 2015 financial statements, NTA's management determined that capital assets included an Indefeasible Right of Use (IRU) associated with NTA's fiber optic cable assets. As a result of this determination, the IRU has been reclassified from capital assets and is separately classified within the accompanying statement of net position.

During the year ended September 30, 2016, NTA retired $19,749,248 cost of capital assets. As a result of this capital asset retirement, NTA recognized a loss on retirement of $84,469.

(5) Indefeasible Right of Use (IRU)

On January 12, 2009, NTA entered into an IRU Capital Lease agreement with a third party for the exclusive use of 8 wave lengths of fiber capacity of the two fibers of the Kwajalein Cable System (KCS) which runs between Guam and Kwajalein and which is known as the "HANTRU1 System". Under the terms of the agreement, NTA made certain payments of $6,500,091. The initial term of the agreement is for a period of 10 years commencing on the date NTA is initially granted access, and which term is automatically renewable for a further 10 year period and an additional 5 year period thereafter. Prior to the tenth and twentieth anniversary dates, NTA has the option to terminate this agreement; however, such is subject to prior approval of the Rural Utilities Services (RUS) of the U.S. Department of Agriculture. NTA's policy is to amortize the right of use over the 25 year period. As of September 30, 2016, accumulated amortization expense of $1,646,690 has been recorded.

Prior to 2016, the IRU was recorded as a component of cable and wire facilities within NTA's capital assets (see Note 4).

(6) Long-term Debt

Long-term debt at September 30, 2016 is as follows:

	Interest Rate	Maturity Dates	
Rural Utilities Service (RUS)	5.00%	2025 - 2031	$ 20,290,894
Rural Utilities Service	3.64% - 3.84%	2031	3,590,572
			$ 23,881,466

Substantially all assets of NTA, including specific NTA ground leases, are pledged to secure the RUS notes. The original $18,800,000 RUS note, approved in 1989, has been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by NTA. In 2009, NTA was approved for additional funding from RUS in the amount of $18,500,000 for the construction of a deep sea cable route between Majuro, Kwajalein and Guam. All of these additional funds were drawn down as of September 30, 2011. RepMar has guaranteed up to $1,500,000 annually for the RUS debt service.

At September 30, 2016, the total principal balance of RUS long-term debt is classified as current liabilities. In 2012, NTA defaulted on its loan payments due to RUS. In 2013, NTA began making reduced monthly loan payments covering slightly more than interest. As of September 30, 2016 and the report date, NTA is past due by approximately $1,006,018 and $100,413, respectively. During 2016, NTA received cash subsidies from RepMar in the amount of $1,344,465, which allowed NTA to make payments on principal balances that were past due. NTA has been formally notified by RUS of the loan default. As of September 30, 2016, NTA has not received an update from RUS as to whether a change has occurred in its loan default notification status. For the year ended September 30, 2017, RepMar appropriated funding to NTA in the amount of $2,200,000 for the purpose of funding past due principal balances. As of report date, NTA has received cash subsidies in the amount of $1,800,000 for the purpose of payment of past due principal balances.

(6) Long-term Debt, Continued

Future minimum principal and interest payments on notes payable for subsequent years ending September 30, are as follows:

Year ending September 30,	Principal	Interest	Total
2017	$ 1,540,703	$ 1,113,037	$ 2,653,740
2018	1,616,909	1,036,831	2,653,740
2019	1,696,914	956,826	2,653,740
2020	1,780,911	872,829	2,653,740
2021	1,869,100	784,640	2,653,740
2022 - 2026	9,275,330	2,489,623	11,764,953
2027 - 2031	6,101,599	673,043	6,774,642
	$ 23,881,466	$ 7,926,829	$ 31,808,295

The terms of the mortgage agreements contain provisions and restrictions pertaining to, among other things, the declaration or payment of cash dividends and the times interest earned ratio. In 2016, NTA did not meet the required times interest earned ratio. Management is of the opinion that the RUS is aware of this matter.

In 2011, NTA received a $1,000,000 loan from RepMar that derives from the Compact of Free Association Infrastructure Maintenance Sector grant funds with the understanding that the loan would be converted into a grant. However, this understanding did not materialize and conversion of the loan into a grant was not approved. This loan is unsecured and interest free with annual payments due of $100,000 commencing March 2012. As of September 30, 2016, the outstanding balance of the loan amounted to $700,000. NTA is currently in default and, as a result, all amounts due have been reclassified as current liabilities.

A summary of changes in long-term debt for the year ended September 30, 2016 is as follows:

	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Notes payable:					
RUS loans	$ 25,361,478	$ -	$ (1,480,012)	$ 23,881,466	$ 1,540,703
Loan payable:					
RepMar	1,000,000	-	(300,000)	700,000	100,000
	$ 26,361,478	$ -	$ (1,780,012)	$ 24,581,466	$ 1,640,703

(7) Commitments

Leases

NTA has several operating leases as of September 30, 2016. These leases have terms ranging from 3 to 25 years. NTA has also entered into various circuit leases expiring through 2021 and storage lease expiring through 2020.

Approximate future minimum annual lease payments are as follows:

Year ending September 30,	Total
2017	$ 802,811
2018	457,513
2019	361,485
2020	325,566
2021	54,625
2022 – 2026	150,104
2027 – 2031	144,381
2032 – 2036	139,623
2037 - 2041	69,466
	$ 2,505,574

Operation, Management and Repair (OM&R) Agreement

On March 2, 2009, NTA, along with the Federated States of Micronesia Telecommunications Corporation (FSMTC), entered into an OM&R agreement with a third party for the purpose of operating, maintaining, and repairing the "Micronesian Addition", which is a subset of the HANTRU1 System. The term of the agreement coincides with the term of the IRU Capital Lease agreement wherein NTA and FSMTC are required to each make monthly payments of $6,400 less certain service credits, and which are subject to inflationary adjustments and an annual incremental increase of 3%.

External Carriers

External carriers located in other countries are subject to oversight policies from their respective regulatory agencies. Currently, U.S. regulatory agencies are contemplating a reduction of the tariff rate used by NTA for settlement with certain U.S. carriers. The ultimate outcome of this matter and the related impact on NTA cannot be predicted at this time.

4G LTE Project

On August 9, 2016, NTA entered into a 6-year master services agreement with a vendor for the purpose of providing 4G LTE services to NTA, which NTA will re-sell to its customers. The vendor will be responsible for finance, implementation, and operation of the 4G LTE Project at no cost to NTA. Upon commencement of services, the vendor will be reimbursed from net project revenues, which are defined as new revenue generated by the project less NTA expense directly related to the project, and NTA lost revenues, which are defined as revenues lost from existing NTA services as a result of the new 4G LTE Project.

(8) Risk Management

NTA purchases insurance to cover risks associated with its buildings and equipment ($28,756,868 of coverage). There have been no significant reductions in coverage, and there have been no settlements in excess of insurance coverage for the past three years. The insurance includes its properties in outer islands and the fiber cable properties. NTA also purchases insurance for its vehicles (up to $25,000 of coverage per vehicle per incident). Additionally, NTA purchases workmen's compensation insurance (coverage of up to $40,000 limit of liability).

(9) Related Party Transactions

NTA is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities.

NTA's telecommunications service is provided to RepMar and all RepMar-owned and affiliated entities. Services are extended to these entities at more favorable terms and conditions than those afforded to third parties. NTA utilizes services from certain affiliated entities at substantially more favorable terms and conditions than those provided to third parties. A summary of related party transactions for the year ended September 30, 2016 and the related receivable and payable balances as of September 30, 2016, are as follows:

	Expenses	Receivables	Payables
Marshalls Energy Company, Inc.	$ 503,773	$ 85,763	$ 138,382
Majuro Resorts, Inc.	18,023	4,377	-
Air Marshall Islands, Inc.	8,766	2,116	-
RepMar and others	307,972	429,887	128,288
	$ 838,534	$ 522,143	$ 266,670

During the year ended September 30, 2016, NTA received a cash subsidy of $1,344,465 from RepMar for the purpose of funding past due RUS loan payments. In addition, NTA received a non-cash subsidy of $300,000 from RepMar for the purpose of reducing NTA's loan payable to RepMar.

During the year ended September 30 2016, NTA received a cash advance of $300,000 from RepMar for the purpose of providing funding for the 4G LTE Project, which is to be reimbursed by NTA.

(10) Retirement Plan

NTA's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors. The Plan is a contributory plan in which NTA contributes 100% of a participant's elective deferral up to 10 percent of the participant's annual salary. Participation is optional. NTA's Plan administrator include the President of NTA and certain members of management. Employer contributions to the Plan during the year ended September 30, 2016 were $54,434. Management is of the opinion that the plan does not represent an asset or liability of NTA. At September 30, 2016, plan assets were $1,068,043.

(11) Contingencies

Litigation

In the ordinary course of business, claims have been filed against NTA. Management does not believe that the plaintiffs will prevail and the ultimate outcome is currently not determinable. Therefore, no provision has been recorded in the accompanying financial statements for losses, if any, that may result.

Going Concern

NTA's financial statements have been prepared on a going concern basis. NTA continues to incur losses with a loss from operations of $110,714 for the year ended September 30, 2016. NTA is in default of its RUS loan agreements and has failed to make scheduled principal and interest payments during 2016. NTA is not aware of any alternate sources of capital to meet its obligations under its primary loan agreement. As discussed in note 6, RepMar has guaranteed a significant portion of NTA's outstanding debt. In previous years through 2010, RepMar has demonstrated the ability and willingness to provide financing for the portion of the RUS loan attributable to NTA to the debt for the fiber optic cable. However, no such support was provided in 2011 and no further support was planned until NTA defaulted on its RUS loan payments. While RepMar has provided support in the past, it is uncertain whether RepMar is willing to continue to support NTA. NTA depends on RepMar for cash and non-cash subsidies to continue its operations. The continuation of NTA's operations is dependent upon future financial support from RepMar in the form of operating subsidies and/or significant improvements in operations through the collection of long outstanding trade receivables and other matters. Additionally, in order for NTA to continue as a going concern, it may require RepMar continued support to repay RUS debt as set forth in note 6. The financial statements do not include any adjustments that might be necessary should NTA be unable to continue as a going concern.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Marshall Islands National Telecommunications Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Marshall Islands National Telecommunications Authority (NTA), which comprise the statement of net position as of September 30, 2016 and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 5, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NTA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NTA's internal control. Accordingly, we do not express an opinion on the effectiveness of NTA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2016-001 and 2016-003, which we consider to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether NTA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2016-002.

NTA's Response to Findings

NTA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. NTA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

June 5, 2017

Finding No. 2016-001

Bank Reconciliations

Criteria: Financial reporting necessitates adequate internal control in review and timely performance of bank reconciliations.

Condition:

1. Monthly bank reconciliations were not timely performed. The September 2016 BOG savings account reconciliation indicated $502,832 of invalid reconciling items that were corrected during the audit process. Of the total amount, $20,447 of employee advances were recorded twice and were improperly charged against an expense account.

2. A September 2016 bank reconciliation indicated reconciling items that represented unrecorded expenses of $7,707; expenses of $10,935 improperly classified to a different expense account; and expenses of $6,182 improperly recorded as an expense instead of a reduction of accounts payable. These misstatements were corrected during the audit process.

3. A June 30 2016 bank reconciliation indicated reconciling items that represented expenses of $42,779 improperly classified to a different expense account; expenses of $29,224 improperly recorded as an expense instead of capital assets; and expenses of $13,616 improperly recorded as an expense instead of a reduction of accounts payable. These misstatements were corrected during the audit process.

4. An $8,162 check (#40826) was voided yet included in a September 2016 bank reconciliation as an outstanding check.

5. An unreconciled $65,158 cash account was noted as of September 30, 2016. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

6. Stale checks of $45,025 were included in the September 2016 bank reconciliations. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Cause: The cause of the above condition is a lack of adequate internal control policies and procedures requiring that bank reconciliations be timely performed and independently reviewed.

Effect: The effect of the above condition is the misstatement of cash accounts that were corrected during the audit process.

Recommendation: We recommend management implement internal control policies and procedures requiring that bank reconciliations be timely performed and independently reviewed.

Auditee Response and Corrective Action Plan: Throughout most of NTA's history, the Company has not had qualified accounting staff, which has resulted in substandard accounting practices. Due to a lack of qualified accounting staff, the Company has struggled to maintain acceptable accounting practices, including timely bank reconciliations.

Management agrees with the finding and will implement correction actions to mitigate this problem. These corrective actions would include the hiring of a second qualified accountant to assist the accounting staff in making timely bank reconciliations, as well as to require the Accounting Department to provide proof to Management that bank accounts are being reconciled in a timely manner.

Finding No. 2016-002

RUS Loan Covenants

Criteria: Section 5.12, *TIER Requirement*, of the RUS Loan Agreements stipulates that NTA shall maintain a TIER rate of 1.5 from December 31, 2012 until maturity of the loans.

Condition: For the year ended September 30, 2016, NTA achieved a 0.89 average TIER ratio.

Cause: The cause of the above condition is lack of sufficient operating revenues to cover operating expenses and to provide operating income to be in compliance with the prescribed ratio requirement.

Effect: The effect of the above condition is noncompliance with the average coverage ratio requirement prescribed by Section 5.12 of the RUS loan agreement.

Recommendation: We recommend management review NTA revenue sources and revisit operating cost efficiencies to assist in compliance with the RUS ratio requirement.

Auditee Response and Corrective Action Plan: Management agrees as to the reasons for noncompliance with the RUS loan TIER requirements.

The problem of RUS loan obligations is not unique to NTA such that it has been raised on more than one occasion at the Micronesian President's Summit. The fact is that the market that NTA operates in is not only small, but it is also limited by the disposable income available to its customers to buy NTA's services.

The fact is that over the last several years, the household debt in the RMI has increased substantially. The increased household debt has led to reduced consumer spending power, which has a direct adverse impact on NTA's ability to sell its services.

While Management agrees as to the reasons for noncompliance with the RUS TIER requirements, it is the view of NTA Management that there is a real limitation on growth opportunities in the market unless the Company is able to sell its services outside of its traditional market. In the past NTA was able to provide satellite capacity to neighboring telecommunications companies that did not have fiber optic connectivity. As more countries in the region move to acquire fiber optic connectivity, NTA's opportunities have decreased.

Management agrees that there is space to implement operating cost efficiencies but that it would still be difficult to achieve the 1.5 TIER rating requirement under the terms of the RUS loan.

Finding No. 2016-003

Account Reconciliations

Criteria: Effective internal control over financial reporting necessitates that general ledger balances agree to supporting sub ledgers and that reconciliations be timely performed and independently reviewed.

Condition: During the audit process, we noted the following:

- The September 2016 accounts receivable aging report was not available and was not reconciled with the general ledger balance.

- The September 2016 Fixed Asset Register was not reconciled with general ledger balances and depreciation expense for the year was not timely recorded. Management subsequently identified capital assets ready for disposal in the amount of $19,698,269; however, these capital assets were not retired until this matter was raised and corrected during the audit process.

- Outstanding projects recorded in the Plant under Construction account were not timely monitored and completed projects were not timely transferred to capital assets in service. This matter was corrected during the audit process.

- The September 2016 customer deposits report was not available and was not reconciled with the general ledger balance. This matter was corrected during the audit process that resulted in a $41,000 variance. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Cause: The cause of the above condition is lack of adequate internal control policies and procedures requiring that general ledger balances be reconciled to supporting sub ledgers.

Effect: The effect of the above condition is the misstatement of general ledger account balances that were corrected during the audit process.

Recommendation: We recommend management implement adequate internal control policies and procedures that facilitate timely reconciliation and independent monitoring of general ledger account balances so as to facilitate timely financial reporting.

Auditee Response and Corrective Action Plan: Management agrees with this finding.

As provided for under Finding No. 2016-001, NTA Management will implement corrective actions to facilitate timely recording, monitoring, and financial reporting.

MARSHALL ISLANDS
NATIONAL TELECOMMUNICATIONS AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2016

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section of this report.