MARSHALL ISLANDS
NATIONAL TELECOMMUNICATIONS AUTHORITY

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2018 and 2017

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

Table of Contents
Years Ended September 30, 2018 and 2017

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

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 statements of net position as of September 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the years 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 audits. We conducted our audits 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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte.

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 April 30, 2019 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 solely 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 the effectiveness of NTA's 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

April 30, 2019

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

Management's Discussion and Analysis
Years Ended September 30, 2018 and 2017

The Marshall Islands National Telecommunications Authority (NTA) is pleased to present its financial statements for fiscal year 2018 with fiscal years 2017 and 2016 prior year data presented for comparative purposes. The following unaudited management's discussion and analysis (MD&A) is required supplementary information.

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.

A summary of the Condensed Statements of the Net Position for 2018, 2017 and 2016 follows:

	2018	2017	2016
Assets:			
Current and other assets	$ 4,001,390	$ 4,472,213	$ 3,910,077
Capital assets	24,512,525	24,905,204	26,613,211
Total assets	$28,513,915	$29,377,417	$30,523,288
Liabilities:			
Current and other liabilities	2,131,381	1,946,999	1,651,744
Long-term debt	20,434,230	22,091,717	24,581,466
Total liabilities	22,565,611	24,038,716	26,233,210
Net Position:			
Net Investment in capital assets	4,078,295	2,813,487	2,031,745
Unrestricted net position	1,870,009	2,525,214	2,258,333
Total net position	5,948,304	5,338,701	4,290,078
Total liabilities and net position	$28,513,915	$29,377,417	$30,523,288

The total assets of NTA decreased by $1,145,871 from 2016 to 2017 and further decreased by $863,502 from 2017 to 2018.

Net current assets increased by $562,136 from 2016 to 2017 but decreased by $470,823 from 2017 to 2018. Cash and certificates of deposit increased by $17,297 from 2016 to 2017 but decreased by $317,344 from 2017 to 2018. Net accounts receivable increased by $156,205 from 2016 to 2017 and further increased by $112,279 from 2017 to 2018. Other receivables increased by $320,790 from 2016 to 2017 but decreased by $304,621 from 2017 to 2018.

Telecommunications plant in service decreased by $1,292,332 from 2016 to 2017 and further decreased by $1,593,644 from 2017 to 2018. These decreases are the result of depreciation expense recognized by NTA of $2,493,037 in 2017 and $2,501,353 in 2018 offset by plant additions and transfers from plant under construction of $1,204,805 in 2017 and $1,012,190 in 2018. Net plant under construction decreased by $155,672 from 2016 to 2017 and increased by $1,460,969 from 2017 to 2018.

Total liabilities of NTA decreased by $2,194,494 from 2016 to 2017 and further decreased by $1,473,105 from 2017 to 2018.

Net current liabilities, excluding long-term debt, increased by $295,255 from 2016 to 2017 and further increased by $184,382 from 2017 to 2018. Accounts payable, contracts payable and customer deposits increased by $382,408 from 2016 to 2017 and further increased by $154,691 from 2017 to 2018.

Long-term debt decreased by $2,489,749 from 2016 to 2017 and further decreased by $1,657,487 from 2017 to 2018. Specifically, NTA reduced its debt with RUS by $2,489,749 in 2017 and $1,657,487 in 2018. This was made possible through operating cash subsidies received from RepMar of $2,182,400 in 2017 and $1,500,000 in 2018.

Statement of Revenues, Expenses, and Changes in Net Position

Total net position of NTA is affected by the changes in both assets and liabilities resulting in an increase in net position of $1,046,933 in 2017 and $607,953 in 2018.

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 NTA, both operating and non-operating, and expenses paid by NTA, operating and non-operating, and other revenues, expense, gains, and losses received or spent by NTA.

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 NTA. Non-operating 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 2017 over 2016 and further improvement in 2018 over 2017. NTA was able to make a profit from its operations in 2018. In the two previous years, 2017 and 2016, NTA reported a loss.

It is important to note that at the end of December 2016 and for most of January 2017, repair work was done on the HANTRU1 fiber optic cable, which connects NTA to Guam. The repair on the fiber cable required NTA to provision additional satellite bandwidth to keep the Marshall Islands connected to the world wide web. Because of satellite bandwidth costs, NTA was only able to provision 100 Mbps during the repair period, which led the NTA Board to decide not to charge customers for Internet usage for the entire month of January 2017. All cost associated with the fiber optic cable repair totaled $614,000. The unbudgeted expenses relating to the HANTRU1 repair had an impact on NTA's operations in 2017.

In addition, NTA extended a 30 percent discount to all television subscribers because the number of channels broadcast on its TV service were reduced by almost half due to equipment and technical issues. As a result, NTA suffered additional revenue losses for the year because of the extended discount. The TV service discount continued in 2018.

A summary of the Condensed Statements of Revenues and Expenses for 2018, 2017 and 2016 follows:

	2018	2017	2016
Revenues:			
Operating revenues	$ 8,313,644	$ 8,453,946	$ 8,530,097
Non-operating revenues	1,517,749	2,200,897	1,669,134
Total revenues	9,831,393	10,654,843	10,199,231
Expenses:			
Operating expenses	8,273,497	8,508,634	8,640,811
Non-operating expenses	949,943	1,099,276	1,254,461
Total expenses	9,223,440	9,607,910	9,895,272
Change in net position	$ 607,953	$ 1,046,933	$ 303,959

Total operating expenses decreased by $132,177 from 2016 to 2017 and further decreased by $235,137 from 2017 to 2018.

Depreciation expense decreased by $38,080 from 2016 to 2017, but increased by $8,316 from 2017 to 2018 due to NTA's GSM and network upgrades.

Net plant specific expenses decreased by $58,362 in 2017 and further decreased by $84,311 in 2018. These decreases were primarily due to higher expenses for plant related and cellular system upgrade incurred in prior years. Net plant non-specific expenses increased by $227,396 in 2017 but decreased by $128,899 in 2018. Corporate operations expenses decreased by $221,754 in 2017 and further decreased by $77,776 in 2018 for general and administrative expenses. Customer operations expenses decreased by $41,377 in 2017 and further decreased by $56,479 in 2018 due to lower purchase of cell and subscriber identification module *(SIM)* cards.

Non-operating revenues increased by $531,763 in 2017 but decreased by $683,148 in 2018 while non-operating expenses decreased by $155,855 in 2017 and further decreased by $149,333 in 2018. The change in non-operating revenues is primarily due to a change in RepMar loan subsidies received by NTA. The successive receipt of RUS loan subsidies from RepMar is a potential game-changer to revitalize the operation. A summary of loan subsidies received by NTA for 2018, 2017 and 2016 follows:

	2018	2017	2016
Cash subsidies	$1,500,000	$2,182,400	$1,344,465
Non-cash subsidies	-	-	300,000
	$1,500,000	$2,182,400	$1,644,465

The decrease in non-operating expenses is primarily due to a decrease in the losses recognized for 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 $432,897. NTA has been using a modified Internet Service Provider (ISP) billing system for telecom billing since its telecom billing system crashed in 2011. Recently, NTA engaged the services of a billing vendor to develop a new billing system designed to meet NTA's requirements, and to provide better customer service and enhance collection. Interest expense also decreased by $74,816 in 2017 and further decreased by $145,233 in 2018 due to timely payment on RUS loans funded by RepMar loan subsidies.

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 averaged $8.03M from 2008 through 2018; however, revenue increases from services from access to the cable have been offset by losses of traditional telephone, fax and internet café revenues.

NTA strives to maintain low rates by regional standards, and the result has been similar total revenues over these years despite the changes in individual revenues as technology changes the way our customers use telecommunications services. In 2014, 2016, 2017, and 2018, NTA increased customer Internet speeds at no additional cost as upgrades and to service. NTA's plans to implement cap data usage, as is common in bigger markets to limit abuse and decrease bandwidth costs, is still under review.

Since the Marshall Islands' domestic market is small, NTA has been reaching out to regional telecommunication companies to market its services. In the past, NTA had customers in Kiribati and the Solomon Islands. NTA provided satellite bandwidth to Bmobile in the Solomon Islands and TSKL in Kiribati. With management changes in these telecom companies, the respective arrangements were terminated. Recently, NTA was approached by one of the companies to explore the possibility of reviving the arrangement. In recent years, however, more of NTA's neighbors have acquired access to their own submarine fiber optic cable making it difficult for NTA to continue to market its satellite services.

In 2014, NTA 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. NTA's service to Kwajalein has increased over the last two to three years. As of 2018, the total bandwidth provided to Kwajalein is 1.4 Gbps.

Capital Asset and Debt Administration

Capital Assets

A summary of NTA's capital assets for 2018, 2017 and 2016 is presented as follows:

	2018	2017	2016
General support assets	$ 9,369,206	$ 9,367,363	$ 9,505,529
Central office assets	13,944,366	13,895,380	13,713,046
Cable and wire facilities	11,994,871	11,985,145	11,984,532
Wireless phone assets	5,731,123	6,408,743	5,738,945
Wireless TV assets	1,385,657	1,246,460	1,232,851
	42,425,223	42,903,091	42,174,903
Less accumulated depreciation	24,370,031	23,254,255	21,233,735
	18,055,192	19,648,836	20,941,168
Plant under construction	2,123,939	662,970	818,642
	$20,179,131	$20,311,806	$21,759,810

Starting in 2013, NTA deployed its Demand Assigned Multiple Access (DAMA) system that brings modern telecommunications to the outer islands that generally do not have electricity. In 2017 and 2018, NTA started providing GSM services on the DAMA network. There are currently 3 outer island sites that have cellular service via the DAMA network. NTA plans to increase the number of DAMA GSM sites during the current fiscal year. NTA continues to work with the Ministry of Health to provide additional DAMA sites at the Ministry's outer island dispensaries to provide for better communication service between the outer island Health Aides and the main hospitals in Majuro and Ebeye.

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. 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.

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

In 2018, NTA upgraded its entire 2G GSM network, replacing all its old UltraWave equipment with newer Huawei equipment. Except for a couple of sites, the 2G GSM upgrade is completed, which has led to lesser call drops and better service quality for customers.

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. NTA did not receive any subsidies in FY2010 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 NTA to make loan payments on the delinquent loans. In 2013, NTA began making reduced monthly loan payments covering slightly more than loan interest. No subsidies were provided by RepMar in 2014.

At September 30, 2015, NTA owed $1,100,000 in RUS loan arrearages. In 2016, RepMar provided a subsidy payment of $1,344,465 which allowed NTA to make payments on its RUS arrearages. At September 30, 2016, NTA owed $1,218,320 in RUS loan arrearages. In 2017, RepMar provided a subsidy payment of $2,182,400 to NTA to pay for past arrearages with RUS. In February 2017, RepMar transferred $1,800,000 to NTA from the $2,182,400 that was appropriated in FY2017 national budget. The transfer allowed NTA to come current with its arrearages with RUS. RepMar provided $1,500,000 to NTA in FY18. RepMar has appropriated $1,200,000 to NTA in the FY19 national budget for subsidy loan payments. NTA is current with its loan obligations with RUS.

NTA has been in discussions with RUS since its initial default in 2012. RUS has agreed to a tentative solution to ease loan terms. RepMar recently agreed to the proposed terms but this needs approval of JEMFAC. Management is working with RepMar to prepare a presentation at the next JEMFAC meeting on the new terms. JEMFAC did not agree to the new loan terms, and NTA continues to work with the RUS to come up with a new loan payment plan that would be acceptable to all parties concerned.

Under the terms of the RUS loans, NTA is required to maintain a minimum times interest earned ratio of 1.5 from December 31, 2012 until maturity of the loans, and as of September 30, 2018, was in violation of this covenant.

In 2011, NTA entered into a $1,000,000 loan agreement with the RMI to be paid in 10 annual installments of $100,000. It was NTA's understanding that the loan would be converted to a grant; however, because of JEMFAC opposition, the conversion never took place. NTA was unable to make repayments from 2012 through 2018 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; however, no further payments have been made on this loan. The loan has been reclassified as a current liability as of September 30, 2018 in the amount of $700,000.

NTA does not have any available sources of credit and 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

In 2017, RepMar and the World Bank agreed to carry out an ICT Sector Analysis and NTA Readiness Assessment to see how the telecommunications sector in the country could be improved. In March 2019, the final report from the consultants who were contracted to provide the study was presented to Cabinet and is now under review. It is not clear presently if RepMar would implement the proposed recommendations to the RMI telecommunications sector that are identified in the study.

There has been discussion that RepMar may be contemplating revisions to the national and local tax structures. Under the tax legislation, as proposed, NTA 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 the Company's 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. NTA believes this additional tax burden to our customers will decrease customer usage and revenue. To date, no movement has been made with regard to the proposed tax revisions.

What is clear to NTA is that the sector has become much harder to operate in. Traditional revenue streams from local and long distance tariffs have decreased especially over the last 5 years due to new applications such as WhatsApp, Viber and Messenger.

For NTA to remain viable in the near and medium term, it must innovate and focus on revenue generating services such as residential DSL, leased line, WiFi Hotspots and mobile data. But to be able to provide world-class service and give its customers quality experience, NTA must invest in its core networks. This is the great challenge for NTA as it does not have adequate revenues to implement these required upgrades.

Financial Contact

This discussion and analysis is designed to provide NTA's customers and other interested parties with an overview of NTA'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)

Statements of Net Position
September 30, 2018 and 2017

ASSETS	2018	2017
Current assets:		
Cash and cash equivalents	$ 1,361,289	$ 1,694,829
Time certificates of deposit	795,934	779,738
Accounts receivable, net of an allowance for doubtful accounts of $928,340 and $750,541 at 2018 and 2017, respectively	1,124,034	1,011,755
Inventory	302,431	283,424
Other receivables	320,299	624,920
Other current assets	97,403	77,547
Total current assets	4,001,390	4,472,213
Capital assets:		
Nondepreciable capital assets	2,123,939	662,970
Capital assets, net of accumulated depreciation	18,055,192	19,648,836
Indefeasible right of use, net	4,333,394	4,593,398
	$ 28,513,915	$ 29,377,417
LIABILITIES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	$ 2,443,778	$ 2,361,500
Accounts payable, trade	393,794	700,280
Contracts payable	604,800	176,250
Accounts payable, affiliates	201,314	182,129
Advance from RepMar	300,000	300,000
Customer deposits and advance billings	463,447	450,005
Other accrued liabilities	168,026	138,335
Total current liabilities	4,575,159	4,308,499
Long term debt, net of current portion	17,990,452	19,730,217
Total liabilities	22,565,611	24,038,716
Commitments and contingencies		
Net position:		
Net investment in capital assets	4,078,295	2,813,487
Common stock, $10 par value, 360,000 shares authorized; 317,887 shares issued; 317,404 and 317,328 shares outstanding at 2018 and 2017, respectively	3,600,000	3,600,000
Additional paid in capital	777,101	775,451
Treasury stock, at par value, 468 shares	(4,680)	(4,680)
Unrestricted	(2,502,412)	(1,845,557)
Total net position	5,948,304	5,338,701
	$ 28,513,915	$ 29,377,417

See accompanying notes to financial statements.

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

Statements of Revenues and Expenses
Years Ended September 30, 2018 and 2017

	2018	2017
Operating revenues:		
Private line access	$ 4,771,562	$ 4,332,368
Local cellular network services	1,943,520	2,016,176
Local network services	853,682	812,845
Long distance network services	690,742	1,047,527
Wireless television services	170,061	157,051
Miscellaneous	61,876	87,979
Bad debt expense	(177,799)	-
Total operating revenues	8,313,644	8,453,946
Operating expenses:		
Plant specific operations	2,797,016	2,881,327
Depreciation and amortization	2,760,887	2,753,040
Plant nonspecifc operations	1,489,816	1,618,715
Consumer operations	619,478	675,957
Corporate operations	501,819	579,595
Loss on impairment of capital assets	104,481	-
Total operating expenses	8,273,497	8,508,634
Income (loss) from operations	40,147	(54,688)
Nonoperating revenues (expenses):		
Operating grant from RepMar	1,500,000	2,182,400
Interest and dividends	17,749	18,497
Loss on retirement of capital assets	-	(4,100)
Interest expense	(949,943)	(1,095,176)
Total nonoperating revenues, net	567,806	1,101,621
Change in net position	$ 607,953	$ 1,046,933

See accompanying notes to financial statements.

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

Statements of Changes in Net Position
September 30, 2018 and 2017

	Net investment in capital assets	Common stock	Additional paid in capital	Treasury stock	Unrestricted	Total
Balance, October 1, 2016	$ 2,031,745	$ 3,600,000	$ 773,761	$ (4,680)	$ (2,110,748)	$ 4,290,078
Sale of 72 shares of common stock for cash, less stock subscriptions receivable and par value due to RepMar	-	-	1,690	-	-	1,690
2017 change in net investment in capital assets and indefeasible rights of use	781,742	-	-	-	(781,742)	-
Change in net position	-	-	-	-	1,046,933	1,046,933
Balance, September 30, 2017	$ 2,813,487	$ 3,600,000	$ 775,451	$ (4,680)	$ (1,845,557)	$ 5,338,701
Balance, October 1, 2017	$ 2,813,487	$ 3,600,000	$ 775,451	$ (4,680)	$ (1,845,557)	$ 5,338,701
Sale of 76 shares of common stock for cash, less stock subscriptions receivable and par value due to RepMar	-	-	1,650	-	-	1,650
2018 change in net investment in capital assets and indefeasible rights of use	1,264,808	-	-	-	(1,264,808)	-
Change in net position	-	-	-	-	607,953	607,953
Balance, September 30, 2018	$ 4,078,295	$ 3,600,000	$ 777,101	$ (4,680)	$ (2,502,412)	$ 5,948,304

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from customers	$ 8,519,428	$ 7,985,781
Cash payments to suppliers for goods and services	(3,980,711)	(3,905,038)
Cash payments to employees for services	(1,723,891)	(1,808,225)
Net cash provided by operating activities	2,814,826	2,272,518
Cash flows from noncapital financing activities:		
Proceeds from the issuance of common stock	1,650	1,690
RepMar operating grant received	1,500,000	2,182,400
Net cash provided by noncapital financing activities	1,501,650	2,184,090
Cash flows from capital and related financing activities:		
Additions to property, plant and equipment	(2,003,816)	(872,883)
Principal paid on RUS long-term debt	(1,657,487)	(2,489,749)
Interest paid on RUS long-term debt	(990,266)	(1,095,176)
Net cash used for capital and related financing activities	(4,651,569)	(4,457,808)
Cash flows from investing activities:		
Net increase in time certificates of deposits	(16,196)	(16,450)
Interest received	17,749	18,497
Net cash provided by investing activities	1,553	2,047
Net change in cash and cash equivalents	(333,540)	847
Cash and cash equivalents at beginning of year	1,694,829	1,693,982
Cash and cash equivalents at end of year	$ 1,361,289	$ 1,694,829
Reconciliation of income (loss) from operations to net cash provided by operating activities:		
Income (loss) from operations	$ 40,147	$ (54,688)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation and amortization	2,760,887	2,753,040
Provision for doubtful accounts	177,799	-
Loss on impairment of capital assets	104,481	-
(Increase) decrease in assets:		
Accounts receivable	(290,078)	(140,405)
Inventory	(19,007)	(26,521)
Other receivables	304,621	(320,790)
Other current assets	(19,856)	(57,123)
Increase (decrease) in liabilities:		
Accounts payable	(306,486)	297,669
Accounts payable, affiliates	19,185	(84,541)
Customer deposits and advanced billings	13,442	(6,970)
Other accrued liabilities	29,691	(87,153)
Net cash provided by operating activities	$ 2,814,826	$ 2,272,518
Summary disclosure of noncash activities:		
Retirement of capital assets:		
Depreciable capital assets	$ 741,502	$ 476,617
Accumulated depreciation	(741,502)	(472,517)
Loss on retirement of capital assets	-	(4,100)
	$ -	$ -

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. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34*, establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to these requirements, equity is presented in the following 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, 2018 and 2017.

- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes of 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.

(2) Summary of Significant Accounting Policies, Continued

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.

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 years ended September 30, 2018 and 2017, 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, 2018, NTA implemented the following pronouncements:

- GASB 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.

- GASB 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.

- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61,* which improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. 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

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.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation. These classifications had no impact on loss from operations, net position or cash flows as previously reported.

(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.

As of September 30, 2018 and 2017, the carrying amount of NTA's total cash and cash equivalents and time certificates of deposit was $2,157,223 and $2,474,567, respectively, and the corresponding bank balances were $2,182,266 and $2,622,473, respectively. Of the bank balances, $1,293,137 and $1,716,306, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of $889,129 and $906,167, respectively, were maintained in a financial institution not subject to not subject to depository insurance. As of September 30, 2018 and 2017, 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 activity for the years ended September 30, 2018 and 2017 are as follows:

	Estimated Useful Lives	Balance October 1, 2017	Additions	Transfers Impairments and Retirements	Balance September 30, 2018
Nondepreciable capital assets:					
Plant under construction		$ 662,970	$ 1,711,753	$ (250,784)	$ 2,123,939
Depreciable capital assets:					
General support assets	5 - 40 yrs	9,367,363	216,384	(214,541)	9,369,206
Central office assets	5 - 20 yrs	13,895,380	576,417	(527,431)	13,944,366
Cable and wire facilities assets	20 - 25 yrs	11,985,145	9,726	-	11,994,871
Wireless phone assets	15 yrs	6,408,743	70,466	(748,086)	5,731,123
Wireless television assets	5 - 10 yrs	1,246,460	139,197	-	1,385,657
		42,903,091	1,012,190	(1,490,058)	42,425,223
Less accumulated depreciation		(23,254,255)	(2,501,353)	1,385,577	(24,370,031)
Depreciable capital assets, net		19,648,836	(1,489,163)	104,481	18,055,192
		$ 20,311,806	$ 222,590	$ (355,265)	$ 20,179,131

	Estimated Useful Lives	Balance October 1, 2016	Additions	Transfers Impairments and Retirements	Balance September 30, 2017
Nondepreciable capital assets:					
Plant under construction		$ 818,642	$ 659,803	$ (815,475)	$ 662,970
Depreciable capital assets:					
General support assets	5 - 40 yrs	9,505,529	169,500	(307,666)	9,367,363
Central office assets	5 - 20 yrs	13,713,046	109,125	73,209	13,895,380
Cable and wire facilities assets	20 - 25 yrs	11,984,532	82,133	(81,520)	11,985,145
Wireless phone assets	15 yrs	5,738,945	14,963	654,835	6,408,743
Wireless television assets	5 - 10 yrs	1,232,851	13,609	-	1,246,460
		42,174,903	389,330	338,858	42,903,091
Less accumulated depreciation		(21,233,735)	(2,493,037)	472,517	(23,254,255)
Depreciable capital assets, net		20,941,168	(2,103,707)	811,375	19,648,836
		$ 21,759,810	$ (1,443,904)	$ (4,100)	$ 20,311,806

During the years ended September 30, 2018 and 2017, NTA retired capital assets with a cost of $741,502 and $476,617, respectively. As a result of these capital asset retirements, NTA recognized a loss on retirement of $0 and $4,100, respectively. NTA recognized a related $104,481 impairment loss during the year ended September 30, 2018.

(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, 2018 and 2017, accumulated amortization expense of $2,166,697 and $1,906,693, respectively, has been recorded.

(6) Long-term Debt

Long-term debt at September 30, 2018 and 2017 is as follows:

	Interest Rate	Maturity Dates	2018	2017
Rural Utilities Service (RUS)	5.00%	2025 - 2031	$ 16,814,961	$ 18,290,555
Rural Utilities Service	3.64% - 3.84%	2031	2,919,269	3,101,162
			$ 19,734,230	$ 21,391,717

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.

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. During the years ended September 30, 2018 and 2017, NTA received cash subsidies from RepMar in the amount of $1,500,000 and $2,182,400, respectively, which allowed NTA to make payments on principal balances. As of September 30, 2018 and 2017, NTA was current on all covenants, agreements and conditions of the RUS loan. For the year ended September 30, 2019, RepMar appropriated funding to NTA in the amount of $1,200,000 for the purpose of funding RUS loan 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
2019	$ 1,743,778	$ 909,962	$ 2,653,740
2020	1,830,030	823,710	2,653,740
2021	1,920,585	733,155	2,653,740
2022	2,015,658	638,082	2,653,740
2023	2,115,475	538,265	2,653,740
2024 - 2028	7,743,244	1,401,891	9,145,135
2029 - 2031	2,365,460	84,106	2,449,566
	$ 19,734,230	$ 5,129,171	$ 24,863,401

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 2018, 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, 2018 and 2017, 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 years ended September 30, 2018 and 2017 is as follows:

	Balance October 1, 2017	Additions	Reductions	Balance September 30, 2018	Due Within One Year
Notes payable:					
RUS loans	$ 21,391,717	$ -	$ (1,657,487)	$ 19,734,230	$ 1,743,778
Loan payable:					
RepMar	700,000	-	-	700,000	700,000
	$ 22,091,717	$ -	$ (1,657,487)	$ 20,434,230	$ 2,443,778

	Balance October 1, 2016	Additions	Reductions	Balance September 30, 2017	Due Within One Year
Notes payable:					
RUS loans	$ 23,881,466	$ -	$ (2,489,749)	$ 21,391,717	$ 1,661,500
Loan payable:					
RepMar	700,000	-	-	700,000	700,000
	$ 24,581,466	$ -	$ (2,489,749)	$ 22,091,717	$ 2,361,500

(7) Commitments

Leases

NTA has several operating leases with 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
2019	$ 475,853
2020	448,722
2021	159,386
2022	138,529
2023	141,766
2024 - 2028	754,846
2029 - 2033	846,567
2034 - 2038	368,069
2039 - 2041	17,075
	$ 3,350,813

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%.

Approximate future minimum annual payments under this agreement are as follows:

Year ending September 30,	Total
2019	$ 98,747
2020	101,710
2021	104,761
2022	107,904
2023	111,141
2024 - 2028	607,764
2029 - 2033	704,565
2034 - 2037	231,904
	$ 2,068,496

(7) Commitments, Continued

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 years ended September 30, 2018 and 2017 and the related receivable and payable balances as of September 30, 2018 and 2017, are as follows:

	2018		
	Expenses	Receivables	Payables
Marshalls Energy Company, Inc.	$ 539,458	$ 19,287	$ 58,528
M.I. Social Security Administration	191,318	1,653	93,291
RepMar and others	135,215	568,097	49,495
	$ 865,991	$ 589,037	$ 201,314

(9) Related Party Transactions, Continued

	2017		
	Expenses	Receivables	Payables
Marshalls Energy Company, Inc.	$ 571,744	$ 25,114	$ 58,528
Air Marshall Islands, Inc.	2,145	5,345	-
RepMar and others	330,374	564,547	123,601
	$ 904,263	$ 595,006	$ 182,129

During the years ended September 30, 2018 and 2017, NTA received a cash subsidy of $1,500,000 and $2,182,400, respectively, from RepMar for the purpose of funding RUS loan payments.

In 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. Reimbursement has yet to occur as of September 30, 2018 and 2017.

At September 30, 2018 and 2017, advances to employees amounted to $40,400 and $49,536, respectively, reported as a component of other current assets in the accompanying statements of net position.

(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 years ended September 30, 2018 and 2017 were $51,971 and $57,810, respectively. Management is of the opinion that the plan does not represent an asset or liability of NTA. At September 30, 2018 and 2017, plan assets were $1,159,490 and $1,186,206, respectively.

(11) Contingencies

Litigation

At September 30, 2018, NTA is involved in a pending lawsuit. Management is of the opinion that the insurance will cover any potential claims. Therefore, no provision has been recorded in the accompanying financial statements for losses, if any, that may result that exceed insurable coverage.

Going Concern

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of NTA as a going concern. NTA depends on RepMar for cash and non-cash subsidies to make payments on RUS loan balances. While RepMar has provided support in the past, it is uncertain whether RepMar is willing to continue to support NTA. 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's continued support to repay RUS debt as set forth in note 6.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

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, 2018 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 April 30, 2019.

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.

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 item 2018-001, which we consider to be material weaknesses.

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 2018-002.

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

April 30, 2019

MARSHALL ISLANDS
NATIONAL TELECOMMUNICATIONS AUTHORITY

Schedule of Findings and Responses
Year Ended September 30, 2018

Finding No. 2018-001

Account Reconciliations

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

Condition: During the audit, we noted the following:

- Deferred revenues were not timely reconciled during the year. A $159,587 misstatement was subsequently identified and corrected during the audit process.
- Outstanding projects recorded as Plant under Construction account were not timely monitored and completed projects were not timely transferred to capital assets in service. This matter was subsequently corrected.
- As of September 30, 2018, net travel advances had an outstanding balance of $84,914. NTA employees and officers are required to submit travel liquidation reports within 30 days upon return from official travel. However, the lack of travel report submission causes a delay in the liquidation process. A $65,752 misstatement was subsequently identified and corrected.
- As of September 30, 2018, NTA reported an unreconciled cash credit balance of $70,539.
- For the year ended September 30, 2018, the accounts payable general ledger balance was understated by $446,214 in comparison with the subsidiary ledger. This misstatement was subsequently identified and corrected.
- Accrued MISSA employer contributions reflected a debit balance of $11,148 at September 30, 2018. A $104,439 audit adjustment was subsequently proposed.
- NTA recorded a $67,832 accrued external carrier settlement receivable which covers September 2017 to September 2018 call transactions. The invoicing process occurred in March 2019.

Cause: The cause of the above condition is a lack of adequate internal control policies and procedures requiring that general ledger balances be timely reconciled to supporting subsidiary ledgers and adherence to travel reporting policies.

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 that management implement adequate internal control policies and procedures that facilitate timely reconciliation and independent monitoring of general ledger account balances to facilitate timely financial reporting.

Prior year Status: The lack of adequate internal control in timely performance of account reconciliations was reported as a finding in the prior year audits as items 2016-003 and 2017-003.

Auditee Response and Corrective Action Plan: NTA Management agrees with the Finding and will continue to work to strengthen our finance department to bring the staff up to a level where proper reconciliations would be the norm and not the exception. Management continue to recruit for the company's new CFO and also plans to hire another qualified accountant in the very near future.

Finding No. 2018-002

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, 2018, NTA achieved a 1.18 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.

Prior year Status: The noncompliance of the RUS ratio requirement was reported as a finding in the prior year audits as items 2016-002 and 2017-002.

Auditee Response and Corrective Action Plan: Management agrees with the Finding. As explained in previous audits, compliance with the RUS TIER requirement of 1.5 will continue to be a challenge for the company given the size of its market. For NTA to meet this requirement, it must continue to explore areas of efficiencies in its delivery of service to keep costs low, and look for growth opportunities where possible.

MARSHALL ISLANDS
NATIONAL TELECOMMUNICATIONS AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2018

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