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, 2019 AND 2018

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

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Years Ended September 30, 2019 and 2018

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, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and of 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, 2019 and 2018, 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.

Emphasis of Matter

COVID-19

As discussed in Note 13 to the financial statements, NTA has determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. NTA is unable to reasonably estimate its ultimate financial impact. 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 1, 2020 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

June 1, 2020

The Marshall Islands National Telecommunications Authority (NTA) is pleased to present its financial statements for fiscal year ended September 30, 2019 with fiscal years ended September 30, 2018 and 2017 prior year data presented for comparative purposes. The following unaudited management's discussion and analysis (MD&A) is required supplementary information.

There are three financial statements presented: the statement of net position, the statement of revenues, expenses and 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.

Overview / Economic Outlook

The Marshall Islands National Telecommunications Authority (NTA) is the sole provider of telecommunications, internet and television service in the Republic of the Marshall Islands (RMI). NTA offers voice, data and television services and solutions that are designed to meet customer demand for mobility, reliable network connectivity, security and control to consumers, be it residential, business or government. NTA has a diverse workforce of 139 employees as at September 30, 2019.

The Company has its main office in Majuro with a smaller administrative office on Ebeye, Kwajalein Atoll. Not all the atolls in the Marshall Islands are connected to 2G, 3G, or 4G mobile service; most are still on the DAMA network.

NTA is a locally owned telecommunications company, with majority ownership by the Republic of the Marshall Islands (RepMar) government. NTA operates in a technology and capital-intensive industry and must continually upgrade and replace equipment to meet international telecommunications standards. Despite this fact, NTA continues to evolve to meet these standards and requirements. As a locally owned company, NTA's profits are not repatriated overseas, they remain and contribute to the local economy.

NTA is proud to be a major employer of citizens and residents of RMI, providing a source of income to many households, and procuring local products and services, which contribute to the economy. Where goods or services are not available locally, NTA has established excellent business relationships with overseas vendors to provide these needed products and services.

Over the last 10 years, NTA has struggled to maintain its core services due to deteriorating infrastructure, most notably the copper network on Majuro and Ebeye. Due to unsustainable debt levels, NTA found it difficult to maintain and upgrade its core infrastructure in line with international standards, which resulted in deteriorating service quality and increased customer dissatisfaction.

Given the above scenarios, NTA's immediate strategy in FY19 was to maintain our current customer base as much as possible by fast-tracking line repairs, working closely with customers to resolve complaints and introducing new technologies such as air fiber to compensate for the deteriorating copper network. At the same time, NTA continued to roll out fiber for residential, business and government customers, and marketed its 4G service to allow more customers to get online through their mobile devices.

Due to the factors stated above, there was no growth in revenue in FY2019.

NTA anticipates that when the fiber network for Majuro and Ebeye become operational, customer complaints would be reduced and less time and resources would be needed to maintain and operate the new network. A fiber network for Majuro and Ebeye, however, requires significant capital investment of approximately $4.5 million.

This should then address the issues raised by the studies carried out by the World Bank on the 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 presently clear if RepMar would implement the proposed recommendations to the RMI telecommunications sector that are identified in the study.

Since launching the 4G network in 2017, NTA has seen an increase in mobile device uptake. More customers are choosing to enjoy the internet through their mobile devices rather than the traditional ADSL set up.

Since establishing our partnership with Tivaka for the 4G network, NTA has been able to repay Tivaka's investment in the network in half the time as was anticipated. This means NTA will soon have 100 percent ownership of all 4G equipment installed in and around the RMI.

In the near term, NTA and Tivaka have agreed on a new revenue sharing arrangement commencing March 2020, which means that half of the revenues from the 4G service will now be recognized as NTA revenue. The revenue sharing arrangement is worth approximately $70,000 - $80,000 a month, or about $900,000 per annum.

The infusion of new revenue under the arrangement with Tivaka will provide much needed capital for ongoing fiber rollout in Majuro and Ebeye, as well as for the 2G/3G project to all the outer islands. Once the outer islands project is completed, every community in the country will have access to mobile broadband, and every school and medical dispensary in the far-flung outlying islands will also have access to dedicated broadband to allow for distance learning and tele-medicine.

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 as at September 30, 2019, 2018 and 2017 follows:

	2019	2018	2017
Assets:			
Current and other assets	$ 4,125,998	$ 4,001,390	$ 4,472,213
Capital assets	23,243,756	24,512,525	24,905,204
Total assets	$ 27,369,754	$ 28,513,915	$ 29,377,417
Liabilities:			
Current and other liabilities	$ 2,202,042	$ 2,131,381	1,946,999
Long-term debt	18,786,873	20,434,230	22,091,717
Total liabilities	20,988,915	22,565,611	24,038,716
Net Position:			
Net investment in capital assets	4,456,883	4,078,295	2,813,487
Unrestricted net position	1,923,956	1,870,009	2,525,214
Total net position	6,380,839	5,948,304	5,338,701
Total liabilities and net position	$ 27,369,754	$ 28,513,915	$ 29,377,417

Total assets of NTA decreased by $863,502 from 2017 to 2018 and further decreased by $1,144,161 from 2018 to 2019.

Net current assets decreased by $470,823 from 2017 to 2018 and increased by $124,608 from 2018 to 2019. Cash and certificates of deposit decreased by $317,344 from 2017 to 2018 and further decreased by $151,671 from 2018 to 2019. Net accounts receivable increased by $112,279 from 2017 to 2018 and further increased by $248,699 from 2018 to 2019. Due from external carriers and other receivables decreased by $304,621 from 2017 to 2018 and further decreased by $5,564 from 2018 to 2019.

Telecommunications plant in service decreased by $1,384,682 from 2017 to 2018 and further decreased by $90,888 from 2018 to 2019. These decreases are the result of depreciation expense recognized by NTA of $2,501,353 in FY2018 and $2,406,598 in FY2019 offset by plant additions and transfers from plant under construction of $983,101 in FY2018 and $1,397,833 in FY2019. Net plant under construction increased by $1,460,969 from 2017 to 2018 and decreased by $917,877 from 2018 to 2019. NTA maintains an Indefeasible Right of Use (IRU) to a fiber optic cable between Guam and Kwajalein in the original amount of $6,500,091, which decreased by amortization of $260,004 from $4,593,398 in 2017 to $4,333,394 at 2018 and further decreased to $4,073,390 at 2019.

Total liabilities of NTA decreased by $1,473,105 from 2017 to 2018 and further decreased by $1,576,696 from 2018 to 2019.

Net current liabilities, excluding current portion of the long-term debt, increased by $184,382 from 2017 to 2018 and further increased by $70,661 from 2018 to 2019. Accounts payable, contracts payable and customer deposits increased by $154,691 from 2017 to 2018 and further increased by $40,308 from 2018 to 2019.

Long-term debt decreased by $1,657,487 from 2017 to 2018 and further decreased by $1,647,357 from 2018 to 2019. Specifically, NTA reduced its debt with the U.S. Rural Utilities Service, which was made possible through operating cash subsidies received from RepMar of $1,500,000 in FY2018 and $1,200,000 in FY2019.

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 $609,603 in FY2018 and further increased by $432,535 in FY2019.

Changes in total net position is 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.

A summary of the Condensed Statements of Revenues, Expenses and Changes in Net Position for the years ended September 30, 2019, 2018 and 2017 follows:

	2019	2018	2017
Revenues:			
Operating	$ 8,130,401	$ 8,313,644	$ 8,453,946
Non-operating	1,218,163	1,519,399	2,200,897
Total revenues	9,348,564	9,833,043	10,654,843
Expenses:			
Operating	8,018,162	8,273,497	8,508,634
Non-operating	897,867	949,943	1,099,276
Total expenses	8,916,029	9,223,440	9,607,910
Change in net position	$ 432,535	$ 609,603	$ 1,046,933

The change in net position declined in FY2018 over FY2017 and further declined in FY2019 over FY2018. The decline in change in net position from $609,603 in FY2018 to $432,535 in FY2019 was due to a reduction in revenues that was greater than the reduction in expenses; however, operating profit increased from $40,147 in FY2018 to $112,239 in FY2019.

The improvement in operating profit was driven from having a lower overall operating expense from $8,273,497 in FY2018 to $8,018,162 in FY2019. The business operations remained the same; however, there was a decline in depreciation expense, a decline in expenses from corporate operations driven by the review and release of prior year accruals and balances from the balance sheet including, in the current year, no loss on impairment of capital assets as opposed to $104,481 in the prior year.

Total operating expenses decreased by $235,137 from FY2017 to FY2018 and further decreased by $255,335 from FY2018 to FY2019.

Depreciation and amortization expense increased by $7,847 from FY2017 to FY2018 but decreased by $94,288 from FY2018 to FY2019.

Net plant specific expenses decreased by $84,311 in FY2018 and further decreased by $64,107 in FY2019. Net plant non-specific expenses decreased by $128,899 in FY2018 and further decreased by $140,168 in FY2019. Corporate operations expenses decreased by $77,776 in FY2018 and increased by $159,644 in FY2019 for general and administrative expenses. Customer operations expenses decreased by $56,479 in FY2018 and further decreased by $11,935 in FY2019.

An overview of operating revenues is shown as follows:

Operating revenue	FY 2019	FY 2018	Change	%	Management discussion and analysis on operating revenue
Private line access	4,848,348	4,771,562	76,786	2%	No new business lines same from prior year, slight increase in rate for Dyncorp International and PSS ISP contract for increase in bandwidth.
Local cellular network services	1,812,397	1,839,876	(27,480)	-1%	Slight decline in cellular services equivalent to 1% from prior year
Local network services	637,852	853,682	(215,830)	-25%	Basic area revenue increased by 36k offset with a decline in other local installations and adjustments for prior years worth 230k
Long distance network services	652,557	690,742	(38,185)	-6%	Slight decline in international long distance revenue
Wireless television services	168,059	170,061	(2,002)	-1%	Remained the same with a decrease in 1% from prior year
Miscelaneous	75,835	165,520	(89,685)	-54%	In FY19 there were more counter sales for phones, mifi devices, modems, dama and tel cards accounting for 190K increase from prior year however this was offset by the increase in cost of sales of $281k due to the valuation adjustment of inventory on hand. (i.e there were physical inventory on hand that were not quantified due to unavailability of time to trace appropriate costs to supporting documents). This is a timing difference only the benefit will be seen in FY2020 when the adjustment to cost of sales will be made following 100% of stock valuation .
Bad debt expense	(64,647)	(177,799)	113,152	-64%	In FY19 there was less bad debt expense as management pushed its providers of long distance network to pay up prior year and current year dues
Total operating revenue	**8,130,401**	**8,313,644**	**(183,244)**	**-2%**	

Non-operating revenues decreased by $681,498 in FY2018 and further decreased by $301,236 in FY2019 while non-operating expenses decreased by $149,333 in FY2018 and further decreased by $52,076 in FY2019. The change in non-operating revenues is primarily the result of 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 NTA's operations. Loan subsidies received by NTA for FY2019, FY2018 and FY2017 amounted to $1,200,000, $1,500,000, and $2,182,400, respectively.

Capital Asset and Debt Administration

Capital Assets

A summary of NTA's capital assets as of September 30, 2019, 2018 and 2017 is presented as follows:

	2019	2018	2017
Plant in service:			
General support assets	$ 9,481,813	$ 9,369,206	$ 9,367,363
Central office assets	14,437,810	13,944,366	13,895,380
Cable and wire facilities	11,994,871	11,994,871	11,985,145
Wireless phone assets	7,416,605	5,731,123	6,408,743
Wireless TV assets	1,409,027	1,385,657	1,246,460
	44,740,933	42,425,223	42,903,091
Less accumulated depreciation	(26,776,629)	(24,370,031)	(23,254,255)
	17,964,304	18,055,192	19,648,836
Plant under construction	1,206,062	2,123,939	662,970
	$ 19,170,366	$ 20,179,131	$ 20,311,806

The increase in depreciable capital assets from 2018 to 2019 is due to partial completion of GSM related construction and upgrade projects, transferred from plant under construction to depreciable plant in service. The plant under construction at September 30, 2019 is primarily related to the Alep billing system expected to be completed and placed in service in FY2020. Refer to Note 5 to the accompanying financial statements for additional discussion on NTA's capital assets.

Long-Term Debt

In FY2009, 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 RepMar subsidies to meet its debt obligations. NTA did not receive any subsidies in FY2010 or FY2011, and in FY2012 was forced to default on loan payments. RepMar as guarantor was required to make loan subsidy payments to NTA in order for NTA to make loan payments on the delinquent loans. In FY2013, NTA began making reduced monthly loan payments covering slightly more than loan interest. No subsidies were provided by RepMar in FY2014.

At September 30, 2015, NTA owed $1,100,000 in RUS loan arrangements. In FY2016, RepMar provided a subsidy payment of $1,344,465 which allowed NTA to make payments on its RUS arrears. At September 30, 2016, NTA owed $1,218,320 in RUS loan arrearages. In FY2017, RepMar provided a subsidy payment of $2,182,400 to NTA to pay for past arrangements 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 arrears with RUS. RepMar provided $1,500,000 to NTA in FY2018 and $1,200,000 in FY2019 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 FY2012 and continues to work with 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, 2019, NTA was in violation of this covenant.

In FY2011, NTA entered into a $1,000,000 loan agreement with RepMar 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 2019 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 and 2019 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 RUS loan.

Refer to Note 7 to the accompanying financial statements for additional discussion on NTA's long-term debt.

Other Matters

On March 11, 2020, the World Health Organization declared the novel strain of corona virus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of May 2020, there has been no confirmed cases of COVID-19 in the RMI. However, it is the view of NTA management that should Covid-19 reach the RMI, this would adversely impact the telecommunications sector.

NTA management has prepared a Covid-19 Response and Business Continuity Plan, which was presented to its Board of Directors in April 2020. The Plan is based on a number of assumptions, key among these are:

1) The Plan is for a six-month nationwide lockdown;
2) NTA will continue to operate with one-third of current staff;
3) All NTA staff will continue to receive regular pay for the duration of the lockdown;
4) NTA staff working during the lockdown will be given an appreciation allowance of $15 dollars daily;
5) NTA assumes most businesses will continue to operate during the lockdown, but not at full capacity; and
6) Private companies likely to place employees on furlough, or indefinite leave of absence.

Given these assumptions, NTA has determined that it would be able to maintain its operations at current levels for three months after a lockdown. NTA would become dependent upon RMI government financial support should the lockdown extend over three months. While NTA management has undertaken to look at the actual financial impact of the introduction of Covid-19 on its business, operations and financial position, the related impact cannot be reasonably estimated at this time.

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
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Statements of Net Position
September 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,193,086	$ 1,361,289
Time certificates of deposit	812,466	795,934
Accounts receivable, net of an allowance for doubtful accounts of $45,705 and $928,340 at 2019 and 2018, respectively	1,372,733	1,124,034
Inventory	304,049	302,431
Due from external carriers	249,212	218,673
Other receivables, net of an allowance for doubtful accounts of $17,179 at 2019	65,523	101,626
Other current assets	34,827	97,403
Total current assets	4,031,896	4,001,390
Advances for capital acquisitions	94,102	-
Capital assets:		
Nondepreciable capital assets	1,206,062	2,123,939
Capital assets, net of accumulated depreciation	17,964,304	18,055,192
Indefeasible right of use, net	4,073,390	4,333,394
	$ 27,369,754	$ 28,513,915
LIABILITIES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	$ 2,525,283	$ 2,443,778
Accounts payable, trade	685,516	393,794
Contracts payable	302,150	604,800
Accounts payable, affiliates	205,162	201,314
Advance from RepMar	300,000	300,000
Customer deposits and advance billings	510,835	463,447
Other accrued liabilities	198,379	168,026
Total current liabilities	4,727,325	4,575,159
Long term debt, net of current portion	16,261,590	17,990,452
Total liabilities	20,988,915	22,565,611
Commitments and contingencies		
Net position:		
Net investment in capital assets	4,456,883	4,078,295
Unrestricted	1,923,956	1,870,009
Total net position	6,380,839	5,948,304
	$ 27,369,754	$ 28,513,915

See accompanying notes to financial statements.

MARSHALL ISLANDS
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Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

	2019	2018
Operating revenues:		
Private line access	$ 4,848,348	$ 4,771,562
Local cellular network services	1,812,397	1,839,876
Long distance network services	652,557	690,742
Local network services	637,852	853,682
Wireless television services	168,059	170,061
Miscellaneous	75,835	165,520
Bad debt expense	(64,647)	(177,799)
Total operating revenues	8,130,401	8,313,644
Operating expenses:		
Plant specific operations	2,732,909	2,797,016
Depreciation and amortization	2,666,599	2,760,887
Plant nonspecifc operations	1,349,648	1,489,816
Corporate operations	661,463	501,819
Consumer operations	607,543	619,478
Loss on impairment of capital assets	-	104,481
Total operating expenses	8,018,162	8,273,497
Income from operations	112,239	40,147
Nonoperating revenues (expenses):		
Operating grant from RepMar	1,200,000	1,500,000
Interest and dividends	18,163	19,399
Interest expense	(897,867)	(949,943)
Total nonoperating revenues, net	320,296	569,456
Change in net position	432,535	609,603
Net position at beginning of year	5,948,304	5,338,701
Net position at end of year	$ 6,380,839	$ 5,948,304

See accompanying notes to financial statements.

MARSHALL ISLANDS
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Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	$ 8,449,646	$ 8,519,428
Cash payments to suppliers for goods and services	(3,691,683)	(3,980,711)
Cash payments to employees for services	(1,787,992)	(1,723,891)
Net cash provided by operating activities	2,969,971	2,814,826
Cash flows from noncapital financing activities:		
RepMar operating grant received	1,200,000	1,500,000
Cash flows from capital and related financing activities:		
Additions to property, plant and equipment	(1,681,149)	(2,003,816)
Advances made for capital acquisition	(94,102)	-
Principal paid on RUS long-term debt	(1,647,358)	(1,657,487)
Interest paid on RUS long-term debt	(917,196)	(990,266)
Net cash used for capital and related financing activities	(4,339,805)	(4,651,569)
Cash flows from investing activities:		
Net increase in time certificates of deposits	(16,532)	(16,196)
Interest received	18,163	19,399
Net cash provided by investing activities	1,631	3,203
Net change in cash and cash equivalents	(168,203)	(333,540)
Cash and cash equivalents at beginning of year	1,361,289	1,694,829
Cash and cash equivalents at end of year	$ 1,193,086	$ 1,361,289
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 112,239	$ 40,147
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	2,666,599	2,760,887
Provision for doubtful accounts	64,647	177,799
Loss on impairment of capital assets	-	104,481
(Increase) decrease in assets:		
Accounts receivable	(313,347)	(290,078)
Inventory	(1,618)	(19,007)
Due from external carriers and other receivables	5,564	304,621
Other current assets	62,576	(19,856)
Increase (decrease) in liabilities:		
Accounts payable	291,722	(306,486)
Accounts payable, affiliates	3,848	19,185
Customer deposits and advanced billings	47,388	13,442
Other accrued liabilities	30,353	29,691
Net cash provided by operating activities	$ 2,969,971	$ 2,814,826
Summary disclosure of noncash activities:		
Retirement of capital assets:		
Depreciable capital assets	$ -	$ 741,502
Accumulated depreciation	-	(741,502)
	$ -	$ -

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, Communications and Information Technology. 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 authorized capital of $3,600,000 (360,000 shares of $10 par value common stock), 90,000 shares of common stock were 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

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) as applicable to governmental entities, specifically proprietary funds.

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. GASB Statement No. 34 requires NTA to report the difference between assets and liabilities as net position.

(2) Summary of Significant Accounting Policies, Continued

To conform to this requirement, net position is presented in the following 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, 2019 and 2018.

- 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. As of September 30, 2019 and 2018, unrestricted net position is designated as follows:

	2019	2018
Common stock, 360,000 shares authorized; 317,404 shares issued; 316,936 shares outstanding	$ 3,600,000	$ 3,600,000
Additional paid-in capital	777,101	777,101
Treasury stock, 468 shares at par value	(4,680)	(4,680)
Unrestricted	(2,448,465)	(2,502,412)
	$ 1,923,956	$ 1,870,009

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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.

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.

(2) Summary of Significant Accounting Policies, Continued

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 external carriers within the United States, Japan, Fiji, Australia, and New Zealand.

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. During the year ended September 30, 2019, NTA wrote off $930,104 of long outstanding receivables.

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.

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, 2019 and 2018, no assets had been written down.

(2) Summary of Significant Accounting Policies, Continued

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.

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, 2019, NTA implemented the following pronouncements:

- GASB 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.

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

However, the implementation of GASB Statement No. 88 did result in additional required disclosure surrounding debt. See Note 7

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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 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.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain* Authoritative *Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

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 2018 financial statements to conform to the 2019 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, 2019 and 2018, the carrying amount of NTA's total cash and cash equivalents and time certificates of deposit was $2,005,552 and $2,157,223, respectively, and the corresponding bank balances were $2,005,981 and $2,182,266, respectively. Of the bank balances, $1,084,990 and $1,293,137, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of $920,991 and $889,129, respectively, were maintained in a financial institution not subject to not subject to depository insurance. As of September 30, 2019 and 2018, 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) Receivables from External Carriers

Due from external carriers in relation to inbound traffic remain uncollected as of September 30, 2019 and 2018. NTA is currently negotiating with these external carriers for a final determination insofar as collection on these amounts. Management is of the opinion that collection efforts will be favorable and thus no allowance for uncollectible accounts is considered necessary at September 30, 2019 and 2018.

(5) Capital Assets

Capital asset activity for the years ended September 30, 2019 and 2018 are as follows:

	Estimated Useful Lives	Balance October 1, 2018	Additions	Transfers, Impairments and Retirements	Balance September 30, 2019
Nondepreciable capital assets:					
Plant under construction		$ 2,123,939	$ 927,205	$ (1,845,082)	$ 1,206,062
Depreciable capital assets:					
General support assets	5 - 40 yrs	9,369,206	88,000	24,607	9,481,813
Central office assets	5 - 20 yrs	13,944,366	322,484	171,767	14,437,810
Cable and wire facilities assets	20 - 25 yrs	11,994,871	-	-	11,994,871
Wireless phone assets	15 yrs	5,731,123	39,317	1,646,165	7,416,605
Wireless television assets	5 - 10 yrs	1,385,657	20,827	2,543	1,409,027
		42,425,223	470,628	1,845,082	44,740,933
Less accumulated depreciation		(24,370,031)	(2,406,598)	-	(26,776,629)
Depreciable capital assets, net		18,055,192	(1,935,970)	1,845,082	17,964,304
		$ 20,179,131	$ (1,008,765)	$ -	$ 19,170,366

(5) Capital Assets, Continued

	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

During the year ended September 30, 2018, NTA retired fully-depreciated capital assets with a cost of $741,502. NTA recognized a related $104,481 impairment loss during the year ended September 30, 2018.

(6) Indefeasible Right of Use (IRU)

In 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, 2019 and 2018, accumulated amortization expense of $2,426,701 and $2,166,697, respectively, has been recorded.

(7) Long-term Debt

Notes and Loan Payable

Long-term debt at September 30, 2019 and 2018 is as follows:

	Interest Rate	Maturity Dates	2019	2018
Rural Utilities Service (RUS)	5.00%	2025 - 2031	$ 15,372,016	$ 16,814,961
Rural Utilities Service	3.64% - 3.84%	2031	2,714,857	2,919,269
			$ 18,086,873	$ 19,734,230

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.

(7) Long-term Debt, Continued

Notes and Loan Payable, Continued

During the years ended September 30, 2019 and 2018, NTA received cash subsidies from RepMar in the amount of $1,200,000 and $1,500,000, respectively, which allowed NTA to make payments on principal balances. Except as discussed below, management believes NTA was in compliance with all covenants, agreements and conditions of the RUS loan as of and for the years ended September 30, 2019 and 2018. For the year ending September 30, 2020, RepMar appropriated funding to NTA in the amount of $950,000 for the purpose of funding RUS loan principal balances.

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
2020	$ 1,825,283	$ 828,457	$ 2,653,740
2021	1,915,602	738,138	2,653,740
2022	2,010,427	643,313	2,653,740
2023	2,109,984	543,756	2,653,740
2024	2,231,011	439,229	2,653,740
2025 - 2029	6,371,883	1,037,455	7,409,338
2030 - 2031	1,622,683	49,296	1,671,979
	$ 18,086,873	$ 4,279,644	$ 22,366,517

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 2019, NTA did not meet the required times interest earned ratio. Management is of the opinion that 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, 2019 and 2018, 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, 2019 and 2018 is as follows:

	Balance October 1, 2018	Additions	Reductions	Balance September 30, 2019	Due Within One Year
Notes payable:					
RUS loans	$ 19,734,230	$ -	$ (1,647,357)	$ 18,086,873	$ 1,825,283
Loan payable:					
RepMar	700,000	-	-	700,000	700,000
	$ 20,434,230	$ -	$ (1,647,357)	$ 18,876,873	$ 2,525,283

	Balance October 1, 2017	Additions	Reductions	Balance September 30, 2018	Due Within One Year
Notes payable:					
RUS loans	$ 21,391,717	$ -	$ (2,489,749)	$ 19,734,230	$ 1,743,778
Loan payable:					
RepMar	700,000	-	-	700,000	700,000
	$ 22,091,717	$ -	$ (2,489,749)	$ 20,434,230	$ 2,443,778

(7) Long-term Debt, Continued

Debt Covenants

The Loan Agreement, dated March 12, 2009, sets forth covenants to ensure proper operation and maintenance of the telecommunications system and payment of debt service. In 2019, NTA did not meet the required times interest earned ratio (TIER). Management is of the opinion that RUS is aware of this matter. The primary requirements of the loan agreements are summarized below:

Rate Covenant - NTA has covenanted to at all times fix, prescribe and collect rates, fees and charges in connection with the services furnished by the telecommunications system that will be sufficient to yield the sum of net income during each fiscal year equal to at least 150% of the annual debt service commencing on December 31, 2012. TIER is defined as net income (after tax) plus interest divided by interest expense. The Loan Agreement prohibits NTA, without the prior written consent of RUS, to incur additional indebtedness while NTA maintains a TIER below 1.0; or if the additional indebtedness will cause NTA's TIER to fall below 1.0; or an Event of Default has occurred and is continuing.

Events of default with finance related consequences - the Loan Agreement specifies a number of Events of Default and related Remedies. NTA shall furnish to RUS promptly, after becoming aware, notice of the occurrence of any default under the Loan Documents or the receipt of any notice with respect to the occurrence of any event with which the giving of notice or the passage of time, or both, could become an Event of Default.

Acceleration - Upon the occurrence of an Event of Default and is continuing, RUS may, by notice in writing to NTA, declare all unpaid principal of and all interest accrued on the Notes to be immediately due and payable and, upon such declaration, all such principal and interest shall become immediately due and payable.

(8) 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.

Approximate future minimum annual lease payments are as follows:

Year ending September 30,	Total
2020	$ 537,735
2021	92,699
2022	30,625
2023	30,625
2024	30,625
2025 - 2029	145,571
2030 - 2034	140,813
2035 - 2039	122,203
2040 - 2041	3,112
	$ 1,134,008

(8) Commitments, Continued

Operation, Management and Repair (OM&R) Agreement

In 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
2020	$ 101,710
2021	104,761
2022	107,904
2023	111,141
2024	114,475
2025 - 2029	625,997
2030 - 2034	725,702
	$ 1,891,690

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

In 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.

(9) Risk Management

NTA purchases insurance to cover risks associated with its buildings and equipment ($28,403,488 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).

(10) 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, 2019 and 2018 and the related receivable and payable balances as of September 30, 2019 and 2018, are as follows:

	2019		
	Expenses	Receivables	Payables
Marshalls Energy Company, Inc.	$ 510,345	$ 25,600	$ 96,509
M.I. Social Security Administration	187,895	3,063	86,370
RepMar and others	114,814	700,344	22,283
	$ 813,054	$ 729,007	$ 205,162

	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

During the years ended September 30, 2019 and 2018, NTA received a cash subsidy of $1,200,000 and $1,500,000, 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, 2019 and 2018.

At September 30, 2019 and 2018, advances to employees amounted to $36,558 and $40,400, respectively, reported as a component of other current assets in the accompanying financial statements.

(11) 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, 2019 and 2018 were $56,587 and $51,971, respectively. Management is of the opinion that the plan does not represent an asset or liability of NTA. At September 30, 2019 and 2018, plan assets were $1,186,091 and $1,159,490, respectively.

(12) Contingencies

Litigation

At September 30, 2019, NTA is involved in a pending lawsuit. However, the amount of the award of damages is undeterminable as of September 30, 2019. Management is of the opinion that insurance will cover any potential claims. Therefore, no provision has been recorded in the accompanying financial statements for losses, if any, that may exceed insurable coverage.

Going Concern

The accompanying financial statements have been prepared in accordance 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 7.

(13) Subsequent Event

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of June 1, 2020, there have been no confirmed cases of COVID-19 in the Marshall Islands. NTA has determined that should the pandemic reach the Marshall Islands, it may negatively impact NTA's business, results of operations, and financial position and NTA may become dependent upon the financial support of RepMar. However, the effect of the pandemic on RepMar is also uncertain and future available funding to RepMar component units may be limited. Therefore, while NTA expects this matter to potentially have a negative impact on its business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time.

Deloitte.

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 June 1, 2020.

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 2019-001, 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 2019-002.

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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 1, 2020

MARSHALL ISLANDS
NATIONAL TELECOMMUNICATIONS AUTHORITY

Schedule of Findings and Responses
Year Ended September 30, 2019

Finding No. 2019-001

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 year ended September 30, 2019, we noted the following:

- Deferred revenues were not timely reconciled. A $177,185 misstatement was subsequently identified and corrected during the audit process.
- Outstanding projects recorded within 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.
- Net travel advances had an outstanding balance of $65,231. 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 $53,782 misstatement was subsequently identified and corrected.
- NTA reported an unreconciled cash credit balance of $70,539. This amount was corrected during the audit process.
- Accounts receivable general ledger (GL) balance was not timely reconciled with the subsidiary ledger. Reconciliation was subsequently performed during the audit process.
- Due from external carriers was not timely reconciled and collected. Reconciliation subsequently occurred during the audit process.
- NTA recorded $465,047 to reconcile the difference between the inventory general ledger balance and the actual inventory count report. The adjustment arose from a failure to record inventory withdrawals. Due to time constraints, the initial inventory valuation report provided for audit was incomplete which resulted in subsequent adjustments. The inventory valuation report included certain items that were incorrectly valued and were subsequently corrected during the audit process.
- Accounts payable GL balance was not timely reconciled with the subsidiary ledger. Reconciliation subsequently occurred during the audit process.
- NTA provided 13 additional post-closing adjusting entries during the course of the audit process, approximately seven months after fiscal year-end.

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.

Finding No. 2019-001, Continued

Account Reconciliations, Continued

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, 2017-003, and 2018-001.

Auditee Response and Corrective Action Plan: Management will implement as recommended. The internal control policies and procedures will be designed reviewed and implemented with continuous monitoring from the Management team. This internal control deficiency relating to the timely reconciliation of key control accounts resulted from having an inadequate finance team.

Management considers this deficiency serious and has resourced the Finance team with additional human resource.

Due to the lack of time and the pressing current needs of finalising the FY2020 budget, deploying a new billing system, closing audit, preparing a COVID-19 response plan, deploying the POS system, warehouse management and normal operational business activities Management is committed to performing reconciliations every month beginning from March 2020. End of March a stocktake was carried out to bring the inventory records up to date and with drawls are now being tracked on a daily basis.

Revenue and cash payments for the months of December to April 2020 have been processed into the Financial Accounting system SAGE 300, however by the end of May reconciliations for the months of March and April are due for review and filing. Reconciliation for the month of May and other months are now planned to be completed by the second week of each subsequent month.

Finding No. 2019-002

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, 2019, NTA achieved a 1.13 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, 2017-002 and 2018-002.

Auditee Response and Corrective Action Plan: Management has put in place plans to increase revenue sources for instance the 4G revenue stream. Management has also taken steps to minimise purchases and expenses to critical needs only in order to reduce cost.

Unresolved Prior Year Findings
Year Ended September 30, 2019

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

Deloitte.

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

June 1, 2020

Mr. Thomas Kijiner Jr.
President/CEO
Marshall Islands National Telecommunications Authority

Dear Mr. Kijiner:

In planning and performing our audit of the financial statements of the Marshall Islands National Telecommunications Authority (NTA) as of and for the year ended September 30, 2019 (on which we have issued our report dated June 1, 2020), in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service (RUS) Borrowers*, we considered NTA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NTA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to NTA's internal control over financial reporting and other matters as of September 30, 2019 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 1, 2020, 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 definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of NTA for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

SECTION I – DEFICIENCIES

We identified, and have included below, deficiencies involving NTA's internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention:

1) Capital Assets

Comment: During the year ended September 30, 2019, NTA retired certain capital assets with a total cost of $2,539,631 and a net book value of $67. However, no capital asset inventory documentation was available to support the retirement. NTA corrected this matter during the audit process.

A new waveguide was capitalized during the year ended September 30, 2019; however, the equipment had not been installed and remains in storage. NTA corrected this matter during the audit process.

Recommendation: We recommend a capital asset inventory be performed to account for assets that are no longer in use, are nonexistent, or are ready for retirement. In addition, independent review of journal entries supporting asset capitalization should be performed.

2) Customer Deposits

Comment: As of September 30, 2019, NTA recorded outstanding customer deposits of $334,429. The audit identified certain accounts that were classified as inactive and remain outstanding as of September 30, 2019.

Recommendation: We recommend a review of long outstanding customer deposits be performed to facilitate determination of accounts no longer refundable.

3) Local Cellular Network Service Revenues

Comment: During the year ended September 30, 2019, the following exceptions concerning local cellular network revenues were noted:

a. NTA provides a 5% discount for every $1,000 of cell card sales to wholesalers; however, NTA does not incorporate this factor in the calculation of GSM revenues. During the year ended September 30, 2019, a potential $53,600 overstatement of revenues was noted; however, no adjustment was proposed as NTA determined that this misstatement was not material to the financial statements.

b. On July 19, 2019, NTA transitioned its GSM revenue processing from a R4S switch to the Alepo billing system. July recorded revenues did not include GSM revenues from the Alepo system covering July 20 to 31 transactions amounting to approximately $47,500. No adjustment was proposed as NTA determined that this misstatement was not material to the financial statements.

c. NTA's memo for local mobile and inter-island mobile call rates effective January 6, 2016 approved $0.15 per minute. However, the actual rate used to charge a local prepaid mobile call is $0.03 per every 12-second increment and $0.015 per 6-second increment for inter-island mobile calls.

Recommendation: We recommend management incorporate discounts in recognizing GSM revenues and that independent review of revenues be performed on a monthly basis to ascertain completeness of revenues reported. Furthermore, we recommend management implement call rates consistent with the application of approved tariff rates.

SECTION I – DEFICIENCIES, CONTINUED

4) Long Distance Calls

Comment: Executive management has direct access to long distance calls; however, control policies and procedures do not include monitoring long distance calls to verify that transactions are business related.

Recommendation: We recommend management establish appropriate internal control policies and procedures (e.g. log sheet of long distance calls naming personnel called and receiving party contacted) to monitor and reconcile internal usage of long distance calls.

5) Local Taxes

Comment: During the year ended September 30, 2019, the following tax-related matters were identified:

a. NTA charges customers a 4% MALGOV sales tax on non-service revenues; however, remittance of collected taxes was not timely performed.

b. NTA self-declared and remitted to RepMar Finance $24,876 of Gross Receipts Tax (GRT) from non-service revenues for fiscal years 2016 and 2017; however, a $25,428 GRT accrual for fiscal years 2018 and 2019 was not recorded. NTA subsequently corrected this matter during the audit process.

Recommendation: We recommend management record and timely remit taxes.

6) Credit Card transactions

During the year ended September 30, 2019, the following credit card transactions were noted:

a. $10,538 of credit card transactions lacked approved Purchase Orders (PO), invoices and travel authorizations.
b. $334 of credit card transactions lacked approved POs and invoices.
c. $6,779 of credit card transactions lacked approved POs and travel authorizations.
d. $158 of credit card transactions lacked invoices.
e. $1,550 of credit card transactions lacked approved POs.
f. $1,733 of credit card finance charges were incurred due to late payments.

Recommendation: We recommend management maintain adequate supporting invoices on file and implement internal control and policies governing use of credit cards. Furthermore, we recommend management require timely payment of credit card billings to avoid finance charges.

7) Allowance for Doubtful Accounts

Comment: During the year ended September 30, 2019, a $185,368 understatement of the allowance for doubtful accounts was identified. No adjustment was proposed as NTA determined that this misstatement was not material to the financial statements.

Recommendation: We recommend management perform periodic assessments of past due receivables to ascertain the adequacy of the allowance.

8) Materials and Supplies Inventory

Comment: Certain inventory listing items as of September 30, 2019 were determined to be obsolete and were subsequently written off by NTA during the audit process.

Recommendation: We recommend management perform periodic evaluations of the allowance for obsolescence.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1) Procurement

Comment: NTA has no formal written procurement policies and procedures. Small purchases did not evidence quotations from qualified vendors to facilitate the competitive procurement process.

Recommendation: We recommend management implement procurement policies and procedures to facilitate competitive procurement processes and that it comply with applicable procurement requirements.

2) Board Sitting Fees

Comment: During the year ended September 30, 2019, NTA paid sitting fees of $5,800 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus subject to withholding taxes. No withholding taxes were withheld by NTA.

Recommendation: We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members.

SECTION III – DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

NTA's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.