

**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, 2020 AND 2019

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

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Years Ended September 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands National Telecommunications Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands National Telecommunications Authority (NTA), a component unit of the Republic of the Marshall Islands (RepMar), which comprise the statements of net position as of September 30, 2020 and 2019, 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, 2020 and 2019, 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 and NTA is unable to reasonably estimate its ultimate financial impact. NTA may become dependent upon the financial support of RepMar as a result of the pandemic; however, the effect on RepMar of the pandemic is also uncertain, which may impact the ability to provide financial support to NTA. Our opinion is not modified with respect to this matter.

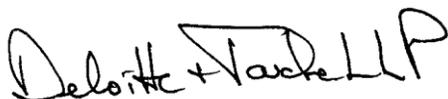
Other Matters

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 May 14, 2021 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.



May 14, 2021

**MARSHALL ISLANDS
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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

Overview

The Marshall Islands National Telecommunications Authority (NTA) is the sole provider of communication, information and entertainment products to consumers, businesses and governmental agencies in the Marshall Islands. We offer voice, data and video services and solutions on our networks that are designed to meet customers demand for mobility, reliable network connectivity, security and control. We have a diverse workforce of approximately 139 employees as at 30th September 2020.

NTA is pleased to present its financial statements for fiscal year 2020 with fiscal years 2019 and 2018 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 NTA's Statements of Net Position at September 30, 2020 compared with 2019 and 2018 is presented below:

**Summary Statements of Net Position
As of September 30**

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Assets:					
Current and other assets	\$ 7,664,231	\$ 8,199,388	\$ (535,157)	(6.5)%	\$ 8,334,784
Capital assets	18,886,561	19,170,366	(283,805)	(1.5)%	20,179,131
Total assets	26,550,792	27,369,754	(818,962)	(3.0)%	28,513,915
Liabilities:					
Current and other liabilities	1,816,023	2,202,042	(386,019)	(17.5)%	2,131,381
Long-term debt	17,066,097	18,786,873	(1,720,776)	(9.2)%	20,434,230
Total liabilities	18,882,120	20,988,915	(2,106,795)	(10.0)%	22,565,611
Net position:					
Net investment in capital assets	5,633,851	4,456,883	1,176,968	26.4%	4,078,295
Restricted	76,614	-	76,614		-
Unrestricted	1,958,207	1,923,956	34,251	1.8%	1,870,009
Total net position	\$ 7,668,672	\$ 6,380,839	\$ 1,287,833	20.2%	\$ 5,948,304

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Statement of Net Position, Continued

Total assets of NTA decreased by \$1,144,161 (or 4%) from 2019 to 2018 and further decreased by \$818,962 (or 3%) from 2019 to 2020.

Current and other assets decreased by \$135,396 (or 1.6%) from 2018 to 2019 and further decreased by \$535,157 (or 6.5%) from 2019 to 2020. NTA has capitalized the cost of acquisition of the exclusive right to use a specified amount of fiber capacity for a period of time as Indefeasible Right of Use (IRU), which decreased by \$260,004 (or 6%) from 2018 to 2019 and decreased by \$260,003 (6.4%) from 2019 to 2020. This decrease was the result of annual amortization of this IRU over a period of 25 years. Cash and certificates of deposit decreased by \$151,671 (or 7%) from 2018 to 2019 and further decreased by \$291,605 (or 14.5%) from 2019 to 2020. Net accounts receivable increased by \$248,699 (or 22.1%) from 2018 to 2019 and further increased by \$285,529 (or 20.8%) from 2019 to 2020. Other receivables and current assets decreased by \$98,679 (or 49.6%) from 2018 to 2019 and further decreased by \$40,434 (or 40.3%) from 2019 to 2020. Due to external carriers increased by \$30,539 (or 14%) from 2018 to 2019 and decreased by \$134,289 (or 53.9%) from 2019 to 2020.

Telecommunications plant in service decreased by \$90,888 (or 0.5%) from 2018 to 2019 and further decreased by \$581,943 (or 3.2%) from 2019 to 2020. These decreases are the result of depreciation expense recognized by NTA of \$2,406,598 in 2019 and \$2,478,078 in 2020 offset by plant additions and transfers from plant under construction of \$2,315,710 in 2019 and \$1,896,135 in 2020. Net plant under construction decreased by \$917,877 (or 43.2%) from 2018 to 2019 and increased by \$298,138 (or 24.7%) from 2019 to 2020.

Total liabilities of NTA decreased by \$1,576,696 (or 7%) from 2018 to 2019 and further decreased by \$2,106,795 (or 10%) from 2019 to 2020.

Current and other liabilities, excluding debt, increased by \$70,661 (or 3.3%) from 2018 to 2019 and decreased by \$386,019 (or 17.5%) from 2019 to 2020. Accounts payable, contracts payable and customer deposits increased by \$40,308 (or 2.4%) from 2018 to 2019 and decreased by \$436,077 (or 25.6%) from 2019 to 2020.

Long-term debt decreased by \$1,647,357 (8.1%) from 2018 to 2019 and further decreased by \$1,720,776 (or 9.2%) from 2019 to 2020. These decreases are the result of principal repayment of RUS debt in 2019 and 2020. This was made possible through cash subsidies received from RepMar of \$1,200,000 in 2019 and \$1,590,000 in 2020.

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 \$432,535 (or 7.3%) in 2019 and an increase of \$1,287,833 (or 20.2%) in 2020.

Changes in total net position as presented on the statement of net position 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 incurred 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 incurred 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. In other words, these are considered non-exchange transactions whereby value is received by NTA without directly giving equal value in return. For example, investment income is non-operating because it is earned without providing telecommunications goods or services.

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Years Ended September 30, 2020 and 2019

Statement of Revenues, Expenses, and Changes in Net Position, Continued

A summary of NTA's Statements of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2020 compared with 2019 and 2018 is presented below:

**Summary Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30**

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Operating:					
Operating revenues	\$ 8,660,196	\$ 8,130,401	\$ 529,795	6.5%	\$ 8,313,644
Operating expenses	8,354,299	8,018,162	336,137	4.2%	8,273,497
Operating income	305,897	112,239	193,658	172.5%	40,147
Nonoperating:					
Nonoperating revenues	1,608,352	1,218,163	390,189	32.0%	1,519,399
Nonoperating expenses	774,240	897,867	(123,627)	(13.8)%	949,943
	834,112	320,296	513,816	160.4%	569,456
Income before capital contributions	1,140,009	432,535	707,474	163.6%	609,603
Capital contributions	147,824	-	147,824		-
Change in net position	\$ 1,287,833	\$ 432,535	\$ 855,298	197.7%	\$ 609,603

The Statement of Revenues, Expenses, and Changes in Net Position identifies the various revenue and expense items that affect net position. As indicated above, NTA's operating income increased by \$72,092 (179.6%) from 2018 to 2019 and further increased by \$193,658 (or 172.5%) from 2019 to 2020. Operating revenues decreased by \$183,243 (or 2.2%) from 2018 to 2019 due, in part, to a decrease in local network services revenues of \$215,830 while operating expenses decreased by \$255,335 (or 3.1%) from 2018 to 2019 due, in part, to a decrease in plant specific and nonspecific operations expenses of \$204,275, resulting in the increase in operating income of \$72,092. Operating revenues increased by \$529,795 (or 6.5%) from 2019 to 2020 due, in part, to an increase in 4G LTE and GSM services of \$713,200 and private line access revenues of \$215,941 offset by an increase in bad debts expense of \$439,165 while operating expenses increased by \$336,137 (or 4.2%) from 2019 to 2020, due, in part, to an increase in plant specific and nonspecific operations expenses of \$314,301, resulting in the increase in operating income of \$193,658. The improvement of operating profit was driven from the recognition of 4G LTE revenue and the introduction of the GSM unlimited plan in 2020. The business operations remained the same in 2020 except for neighbor island 2/3G project deployment.

Income before capital contributions decreased by \$177,068 (or 29%) from 2018 to 2019 and increased by \$707,474 (or 164%) from 2019 to 2020. Income before capital contributions is determined by operating income plus nonoperating revenues, net of nonoperating expenses. Nonoperating revenues consist of operating subsidies from RepMar as well as investment earnings while nonoperating expenses consist of interest expense on RUS debt.

Nonoperating revenues decreased by \$301,236 (or 19.8%) from 2018 to 2019 due to a decrease in RepMar operating subsidies of \$300,000 and increased by \$390,189 (or 32%) from 2019 to 2020 due to an increase in RepMar operating subsidies of \$390,000. 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 NTA operations.

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Statement of Revenues, Expenses, and Changes in Net Position, Continued

A summary of operating and capital contributions received from RepMar by funding source for the year ended September 30, 2020 compared with 2019 and 2018 is presented below:

**Summary Schedule of RepMar Contributions
Years Ended September 30**

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Operating contributions:					
RepMar General Fund	\$ 950,000	\$ 1,200,000	\$ (250,000)	(20.8)%	\$ 1,500,000
ROC Taiwan	640,000	-	640,000		-
Capital contributions:					
ROC Capital Projects	147,824	-	147,824		-
	<u>\$ 1,737,824</u>	<u>\$ 1,200,000</u>	<u>\$ 537,824</u>	44.8%	<u>\$ 1,500,000</u>

The capital contributions received by NTA from RepMar during the year ended September 30, 2020 were for the purpose of upgrading telecommunication services in the outer islands, specifically, Jaluit and Namdrik Atolls, where DAMA tele-centers have been established.

Nonoperating expenses decreased by \$52,076 (or 5.5%) from 2018 to 2019 and further decreased by \$123,627 (or 13.8%) from 2019 to 2020. The decrease in nonoperating expenses is due to continued paydown of NTA debt with RUS resulting in continued decrease in interest expense.

A further overview of operating revenues as a comparison from 2019 to 2020 is shown as follows:

Operating revenue	FY2020	FY2019	Change	%	Management discussion and analysis on operating revenue
Private line access	5,064,289	4,848,349	215,941	4%	Private line access increase in revenue due to increase in DSL installations in FY20 compared to FY19.
Local cellular network services (GSM)	2,009,084	1,812,397	196,687	11%	Local cellular network services increased by 11% due to increase in number of subscribers in 2020 compared to 2019.
Long distance network services	598,665	652,557	(53,892)	-8%	Decline in long distance network services is as expected as more customers use social media to communicate with other parties.
4G LTE	518,621	-	518,621	100%	This year NTA started revenue sharing with Tivaka from March 2020 after Tivaka recovered its initial capital investment in FY2017.
Local network services	470,742	637,852	(167,110)	-26%	The decline in local network services by 26% from FY2019 relates to reclassifications of other general installations to Miscellaneous revenue. Basic area revenue has remained steady monthly at approximately \$39,000 per month.
GSM Unlimited	194,579	-	194,579	100%	This is a new plan that was launched in April 2020.
Wireless television services	162,000	168,059	(6,060)	-4%	Wireless television decline is due to customer disconnections.
Miscellaneous	146,028	75,835	70,193	93%	Increase in miscellaneous revenue is a result of increase in SIM purchases, increase in sale of mobile phones and accessories in FY2020 compared to FY2019.
Bad debt expense	(503,812)	(64,647)	(439,165)	679%	Bad debt expense increase is a result of slow paying customers in FY2020 compared to FY2019.
Total operating revenues	8,660,196	8,130,401	529,795	7%	

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Statement of Revenues, Expenses, and Changes in Net Position, Continued

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, 2018, 2019 and 2020, 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.

The Board and Management team of NTA have been working on introducing new revenue streams to increase revenue and, as such, the 4G LTE investment in 2017. The 4G LTE investment through a joint venture with Tivaka was successful with the recognition of NTA's first 4G LTE revenue in March 2020. Management also launched an GSM Unlimited plan to cater to the growing demand for local calls. The two new revenue streams have boosted NTA's revenue line for the year ended September 30, 2020 by contributing a combined \$713,201.

Capital Asset and Debt Administration

Capital Assets

Net capital assets decreased by \$1,009,765 (or 5%) from 2018 to 2019 and further decreased by \$282,805 (or 1.5%) from 2019 to 2020. These decreases are the result of depreciation expense recognized by NTA of \$2,406,598 in 2019 and \$2,478,078 in 2020 offset by plant additions of \$1,775,251 in 2019 and \$2,298,014 in 2020. Plant under construction amount represents 90% of the neighbor island 2G/3G VSAT project under the joint venture with Intelsat.

A summary of NTA's capital assets at September 30, 2020 compared with 2019 and 2018 is presented below:

**Summary Schedule of Capital Assets
As of September 30**

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Nondepreciable plant assets:					
Plant under construction	\$ 1,504,200	\$ 1,206,062	\$ 298,138	24.7%	\$ 2,123,939
Telecommunications plant in service:					
General support assets	10,626,917	9,481,813	1,145,104	12.1%	9,369,206
Central office assets	14,721,035	14,438,617	282,418	2.0%	13,944,366
Cable and wire facilities assets	11,994,871	11,994,871	-	0.0%	11,994,871
Wireless phone assets	7,855,840	7,416,605	439,235	5.9%	5,731,123
Wireless television assets	1,438,405	1,409,027	29,378	2.1%	1,385,657
	46,637,068	44,740,933	1,896,135	4.2%	42,425,223
Accumulated depreciation	(29,254,707)	(26,776,629)	(2,478,078)	9.3%	(24,370,031)
	17,382,361	17,964,304	(581,943)	(3.2)%	18,055,192
	<u>\$ 18,886,561</u>	<u>\$ 19,170,366</u>	<u>\$ (283,805)</u>	(1.5)%	<u>\$ 20,179,131</u>

Please refer to note 5 of the accompanying financial statements for additional information regarding NTA's capital assets.

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Capital Asset and Debt Administration, Continued

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 arrangements. In 2016, 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 2017, 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 \$950,000 to NTA from the General Fund in FY2020. RepMar has appropriated \$500,000 to NTA in the FY2021 national budget for subsidy loan payments. NTA is current with its loan obligations with RUS.

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, 2020, 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, 2020 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 Rural Utilities Service loan.

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

Economic Outlook

The telecommunications industry is capital intensive and in constant technological evolution. The fast changing technology resulted in traditional telecom revenue streams of long distance network services decrease by 76% and private line access (internet revenues) increase by 148 % over the 10 year period 2011 to 2020.

After taking the government guaranteed loan in 2010 from the RUS of \$18.5M to finance the fiber optic cable from Guam to Majuro, NTA has had to finance loan payments of \$2.5M annually while being challenged with increasing costs of doing business in the RMI.

To measure up to the global economy, the RUS loan facilitated the fiber connection between the RMI and Guam; however, the second most crucial game changer of deploying fiber to the homes was not covered in the loan, which meant that NTA would have to source this from cash available after paying for operating expenses and loan repayments.

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Economic Outlook, Continued

The RMI government pledged to assist in this telecommunications infrastructure loan of up to \$1.5M annually. This resulted in continuous operating losses over the years because the revenue earned and collected was not sufficient to cover the growing cost of doing business in the Marshall Islands and the financing of the loan.

Unfortunately, with the small market in the RMI and with the RMI Government and its agencies being the major customer of NTA, cash flow problems prohibited the ability of NTA to rollout fiber to the homes.

To help improve the revenue base and inject more funding, the management team and Board decided to invite Tivaka to launch the 4G LTE network in the RMI under a joint venture whereby NTA was not required to finance the investment upfront. With the introduction of the 4G network in March of 2017, NTA was able to catch up to the rest of the world in terms of mobile technology and allow the RMI market an alternative to accessing fast internet as opposed to fiber to the homes as the challenges of rolling out fiber to the homes would take the next couple of years and willing stakeholders to work together to achieve the milestone.

By March 2020, Tivaka recovered the cost of their investment and NTA started recording 4G LTE revenue as a new revenue stream. This increased revenue for NTA in the financial year 2020 by \$518,621 and the subsequent years expected to increase revenue to the tune of \$1.1M average per year.

FY 2020 also marks the year that the neighboring island deployment of 2G/3G VSAT project commenced. This project is another arrangement just like the Tivaka arrangement where no upfront capital investment was required, Intelsat provided the equipment to install satellite on towers to be erected in over 70 sites all over RMI. The provision of outer island connectivity is part of NTA's strategy of growing the business responsibly and being a leader in Corporate Social Responsibility. As a Marshallese owned and Marshallese built Telecom, NTA strives itself in serving all of its people in Majuro and other isolated geographically challenged atolls providing ability for our people to connect to the outside world.

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
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Statements of Net Position
September 30, 2020 and 2019

	2020	2019
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 884,380	\$ 1,193,086
Time certificates of deposit	829,567	812,466
Accounts receivable, net of an allowance for doubtful accounts of \$503,812 and \$45,705 at 2020 and 2019, respectively	1,658,262	1,372,733
Inventory	303,796	304,049
Due from external carriers	114,923	249,212
Other receivables, net of an allowance for doubtful accounts of \$17,179 at 2019	39,322	65,523
Other current assets	20,594	34,827
Total current assets	3,850,844	4,031,896
Advances for capital acquisitions	-	94,102
Capital assets:		
Nondepreciable capital assets	1,504,200	1,206,062
Capital assets, net of accumulated depreciation	17,382,361	17,964,304
Indefeasible right of use, net	3,813,387	4,073,390
	\$ 26,550,792	\$ 27,369,754
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current maturities of long-term debt	\$ 2,610,633	\$ 2,525,283
Accounts payable, trade	565,414	685,516
Contracts payable	51,571	302,150
Accounts payable, affiliates	208,529	205,162
Advance from RepMar	300,000	300,000
Customer deposits and advance billings	442,072	510,835
Unearned revenue	18,248	-
Other accrued liabilities	230,189	198,379
Total current liabilities	4,426,656	4,727,325
Long term debt, net of current portion	14,455,464	16,261,590
Total liabilities	18,882,120	20,988,915
Commitments and contingencies		
Net position:		
Net investment in capital assets	5,633,851	4,456,883
Restricted	76,614	-
Unrestricted	1,958,207	1,923,956
Total net position	7,668,672	6,380,839
	\$ 26,550,792	\$ 27,369,754

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Private line access	\$ 5,064,289	\$ 4,848,348
Local cellular network services	2,009,084	1,812,397
Long distance network services	598,665	652,557
4G LTE services	518,621	-
Local network services	470,742	637,852
GSM unlimited plan	194,579	-
Wireless television services	162,000	168,059
Miscellaneous	146,028	75,835
Bad debt expense	(503,812)	(64,647)
Total operating revenues	<u>8,660,196</u>	<u>8,130,401</u>
Operating expenses:		
Plant specific operations	3,019,284	2,732,909
Depreciation and amortization	2,738,081	2,666,599
Plant nonspecific operations	1,377,574	1,349,648
Corporate operations	577,362	661,463
Consumer operations	641,998	607,543
Total operating expenses	<u>8,354,299</u>	<u>8,018,162</u>
Income from operations	<u>305,897</u>	<u>112,239</u>
Nonoperating revenues (expenses):		
Operating grant from RepMar	1,590,000	1,200,000
Interest and dividends	18,352	18,163
Interest expense	(774,240)	(897,867)
Total nonoperating revenues, net	<u>834,112</u>	<u>320,296</u>
Income before capital contributions	<u>1,140,009</u>	<u>432,535</u>
Capital contributions	147,824	-
Change in net position	<u>1,287,833</u>	<u>432,535</u>
Net position at beginning of year	<u>6,380,839</u>	<u>5,948,304</u>
Net position at end of year	<u>\$ 7,668,672</u>	<u>\$ 6,380,839</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS
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Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 8,484,642	\$ 8,449,646
Cash payments to suppliers for goods and services	(3,829,528)	(3,691,683)
Cash payments to employees for services	(1,857,129)	(1,787,992)
Net cash provided by operating activities	2,797,985	2,969,971
Cash flows from noncapital financing activities:		
RepMar operating grants received from:		
General Fund	950,000	1,200,000
ROC Taiwan Fund	640,000	-
Net cash provided by noncapital financing activities	1,590,000	1,200,000
Cash flows from capital and related financing activities:		
Additions to property, plant and equipment	(2,298,014)	(1,775,251)
RepMar capital grant received	147,824	-
Principal paid on RUS long-term debt	(1,720,776)	(1,647,358)
Interest paid on RUS long-term debt	(826,976)	(917,196)
Net cash used for capital and related financing activities	(4,697,942)	(4,339,805)
Cash flows from investing activities:		
Net increase in time certificates of deposits	(17,101)	(16,532)
Interest received	18,352	18,163
Net cash provided by investing activities	1,251	1,631
Net change in cash and cash equivalents	(308,706)	(168,203)
Cash and cash equivalents at beginning of year	1,193,086	1,361,289
Cash and cash equivalents at end of year	\$ 884,380	\$ 1,193,086
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 305,897	\$ 112,239
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	2,738,081	2,666,599
Provision for doubtful accounts	503,812	64,647
(Increase) decrease in assets:		
Accounts receivable	(789,341)	(313,347)
Inventory	253	(1,618)
Due from external carriers and other receivables	160,490	5,564
Other current assets	14,233	62,576
Increase (decrease) in liabilities:		
Accounts payable	(120,102)	291,722
Accounts payable, affiliates	3,367	3,848
Customer deposits and advanced billings	(68,763)	47,388
Unearned revenue	18,248	-
Other accrued liabilities	31,810	30,353
Net cash provided by operating activities	\$ 2,797,985	\$ 2,969,971
Supplemental information on noncash activities:		
Noncash increase in property, plant and equipment	\$ 52,736	\$ 19,329
Capitalized interest	(52,736)	(19,329)
	\$ -	\$ -

See accompanying notes to financial statements.

**MARSHALL ISLANDS
NATIONAL TELECOMMUNICATIONS AUTHORITY
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Notes to Financial Statements
September 30, 2020 and 2019

(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. In 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.

**MARSHALL ISLANDS
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Notes to Financial Statements
September 30, 2020 and 2019

(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. As of September 30, 2020, NTA has expendable restricted net position of \$76,614 for unexpended contributions from RepMar for upgrading telecommunication services in the outer islands.
- 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, 2020 and 2019, unrestricted net position is designated as follows:

	<u>2020</u>	<u>2019</u>
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	<u>(2,414,214)</u>	<u>(2,448,465)</u>
	<u>\$ 1,958,207</u>	<u>\$ 1,923,956</u>

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.

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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

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 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.

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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

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, 2020 and 2019, 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.

Capitalized Interest

NTA capitalizes interest on construction in progress based on the weighted average interest rate. During the years ended September 30, 2020 and 2019, interest of \$52,736 and \$19,329, respectively, was capitalized.

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, 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, 91, 92 and 93 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. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. Except for paragraphs 11b, 13, and 14, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2021. The requirement in paragraphs 11b, 13, and 14 are effective for fiscal year September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

Management Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Deposits

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

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

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

As of September 30, 2020 and 2019, the carrying amount of NTA's total cash and cash equivalents and time certificates of deposit was \$1,713,947 and \$2,005,552, respectively, and the corresponding bank balances were \$1,899,557 and \$2,005,981, respectively. Of the bank balances, \$951,584 and \$1,084,990, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$947,973 and \$920,991, respectively, were maintained in a financial institution not subject to depository insurance. As of September 30, 2020 and 2019, 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.

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Notes to Financial Statements
September 30, 2020 and 2019

(4) Receivables from External Carriers

Due from external carriers in relation to inbound traffic remain uncollected as of September 30, 2020 and 2019. 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, 2020 and 2019.

(5) Capital Assets

Capital asset activity for the years ended September 30, 2020 and 2019 are as follows:

	Estimated Useful Lives	Balance October 1, 2019	Additions	Transfers, Impairments and Retirements	Balance September 30, 2020
Nondepreciable capital assets:					
Plant under construction		\$ 1,206,062	\$ 1,762,133	\$ (1,463,995)	\$ 1,504,200
Depreciable capital assets:					
General support assets	5 - 40 yrs	9,481,813	106,845	1,038,259	10,626,917
Central office assets	5 - 20 yrs	14,438,617	168,273	114,145	14,721,035
Cable and wire facilities assets	20 - 25 yrs	11,994,871	-	-	11,994,871
Wireless phone assets	15 yrs	7,416,605	127,644	311,591	7,855,840
Wireless television assets	5 - 10 yrs	1,409,027	29,378	-	1,438,405
		44,740,933	432,140	1,463,995	46,637,068
Less accumulated depreciation		(26,776,629)	(2,478,078)	-	(29,254,707)
Depreciable capital assets, net		17,964,304	(2,045,938)	1,463,995	17,382,361
		\$ 19,170,366	\$ (283,805)	\$ -	\$ 18,886,561
	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	14,438,617
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

(6) Infeasible 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, 2020 and 2019, accumulated amortization expense of \$2,686,704 and \$2,426,701, respectively, has been recorded.

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Notes to Financial Statements
September 30, 2020 and 2019

(7) Long-term Debt

Notes and Loan Payable

Long-term debt at September 30, 2020 and 2019 is as follows:

	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>2020</u>	<u>2019</u>
Rural Utilities Service (RUS)	5.00%	2025 - 2030	\$ 13,847,330	\$ 15,372,016
Rural Utilities Service	3.64% - 3.84%	2029 - 2030	<u>2,518,767</u>	<u>2,714,857</u>
			<u>\$ 16,366,097</u>	<u>\$ 18,086,873</u>

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.

During the years ended September 30, 2020 and 2019, NTA received cash subsidies from RepMar in the amount of \$1,590,000 and \$1,200,000, 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, 2020 and 2019. For the year ending September 30, 2021, RepMar appropriated funding to NTA in the amount of \$500,000 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:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,910,633	\$ 743,107	\$ 2,653,740
2022	2,005,217	648,523	2,653,740
2023	2,104,523	549,217	2,653,740
2024	2,208,786	444,954	2,653,740
2025	1,608,664	345,928	1,954,592
2026 - 2030	<u>6,528,274</u>	<u>782,574</u>	<u>7,310,848</u>
	<u>\$ 16,366,097</u>	<u>\$ 3,514,303</u>	<u>\$ 19,880,400</u>

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 2020, 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, 2020 and 2019, 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.

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(7) Long-term Debt, Continued

Notes and Loan Payable, Continued

A summary of changes in long-term debt for the years ended September 30, 2020 and 2019 is as follows:

	Balance October 1, <u>2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2020</u>	Due Within <u>One Year</u>
Notes payable:					
RUS loans	\$ 18,086,873	\$ -	\$ (1,720,776)	\$ 16,366,097	\$ 1,910,633
Loan payable:					
RepMar	<u>700,000</u>	<u>-</u>	<u>-</u>	<u>700,000</u>	<u>700,000</u>
	<u>\$ 18,876,873</u>	<u>\$ -</u>	<u>\$ (1,720,776)</u>	<u>\$ 17,066,097</u>	<u>\$ 2,610,633</u>
	Balance October 1, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2019</u>	Due Within <u>One Year</u>
Notes payable:					
RUS loans	\$ 19,734,230	\$ -	\$ (1,647,357)	\$ 18,086,873	\$ 1,825,283
Loan payable:					
RepMar	<u>700,000</u>	<u>-</u>	<u>-</u>	<u>700,000</u>	<u>700,000</u>
	<u>\$ 20,434,230</u>	<u>\$ -</u>	<u>\$ (1,647,357)</u>	<u>\$ 18,876,873</u>	<u>\$ 2,525,283</u>

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 2020, 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.

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(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:

<u>Year ending September 30,</u>	<u>Total</u>
2021	\$ 1,580,689
2022	1,695,733
2023	1,652,533
2024	1,630,933
2025	943,832
2026 - 2030	469,571
2031 - 2035	139,623
2036 - 2040	96,353
2041	<u>1,037</u>
	<u>\$ 8,210,304</u>

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:

<u>Year ending September 30,</u>	<u>Total</u>
2021	\$ 104,761
2022	107,904
2023	111,141
2024	114,475
2025	117,909
2026 - 2030	644,777
2031 - 2034	<u>589,013</u>
	<u>\$ 1,789,980</u>

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.

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September 30, 2020 and 2019

(8) Commitments, Continued

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. On March 25, 2020, NTA entered into an amendment to this agreement whereby the vendor and NTA agreed to equally share all revenues from the 4G LTE services for a period of six months, commencing March 1, 2020, which may be extended by mutual consent. During the year ended September 30, 2020, NTA recognized 4G LTE service revenues of \$518,621 associated with this arrangement.

(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, 2020 and 2019 and the related receivable and payable balances as of September 30, 2020 and 2019, are as follows:

	2020		
	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 541,645	\$ 44,532	\$ 44,173
M.I. Social Security Administration	212,045	3,108	116,611
RepMar and others	<u>117,742</u>	<u>674,850</u>	<u>47,745</u>
	<u>\$ 871,432</u>	<u>\$ 722,490</u>	<u>\$ 208,529</u>
	2019		
	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 510,345	\$ 25,600	\$ 96,509
M.I. Social Security Administration	187,895	3,063	86,370
RepMar and others	<u>114,814</u>	<u>520,357</u>	<u>22,283</u>
	<u>\$ 813,054</u>	<u>\$ 549,020</u>	<u>\$ 205,162</u>

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(10) Related Party Transactions, Continued

During the years ended September 30, 2020 and 2019, NTA received a cash subsidy of \$1,590,000 and \$1,200,000, respectively, from RepMar for the purpose of funding RUS loan payments.

During the year ended September 30, 2020, NTA received \$147,824 from RepMar for the purpose of upgrading telecommunication services in the outer islands.

A summary of RepMar appropriations by funding source received by NTA for the years ended September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
General Fund - Operating Subsidy	\$ 950,000	\$ 1,200,000
ROC Taiwan - Operating Subsidy	640,000	-
ROC Taiwan - Upgrade Telecommunication Services	<u>147,824</u>	<u>-</u>
	<u>\$ 1,737,824</u>	<u>\$ 1,200,000</u>

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, 2020 and 2019.

(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, 2020 and 2019 were \$43,685 and \$56,587, respectively. Management is of the opinion that the plan does not represent an asset or liability of NTA. At September 30, 2020 and 2019, plan assets were \$1,223,076 and \$1,186,091, respectively.

(12) Contingencies

Litigation

At September 30, 2020, NTA is involved in a pending lawsuit. However, the amount of the award of damages is undeterminable as of September 30, 2020. 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 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.

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(13) COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended the containment and mitigation measures worldwide. On October 28, 2020, one confirmed case was identified in the Marshall Islands that was subsequently isolated and contained. On November 17, 2020, an additional three cases were identified and which were isolated and contained. As of May 14, 2021, no community transmission has been identified. NTA has determined that should community transmission occur within 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.

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, 2020 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 May 14, 2021.

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) as a basis for designing 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 financial statements. 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 2020-001.



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.

A handwritten signature in black ink that reads "Deloitte + Stark LLP". The signature is written in a cursive, stylized font.

May 14, 2021

**MARSHALL ISLANDS
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Schedule of Findings and Responses
Year Ended September 30, 2020

Finding No. 2020-001

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, 2020, NTA achieved a 1.4 average TIER ratio.

Cause: Lack of sufficient operating revenues to cover operating expenses and to provide operating income to be in compliance with the prescribed ratio requirement.

Effect: 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, 2018-002 and 2019-002.

Auditee Response and Corrective Action Plan: Two new revenue streams were launched in the second quarter of financial year 2020 - the 4GLTE and the unlimited GSM plan. The 4GLTE revenue stream and the 2/3G VSAT neighbor islands capital projects were launched and implemented over time in financial years 2017 and 2019; however, the benefits are just being realized now. In financial year 2021, management anticipates additional revenue from 4GLTE of approximately \$480,000 for five months compared to financial year 2020 where only seven months of 4GLTE revenue was recognized when the revenue sharing agreement came into effect in March 2020. In addition, management anticipates an increase in GSM revenue from the nationwide unlimited rate plan and the activation of the neighbor island 2/3G VSAT sites.

In the current year, doubtful debts were recognized of over \$503,812 resulting in the direct reduction of net income, which is an important variable in the tier calculation. The tier calculation would have been met with an additional \$107,591 of net income. Management is working with the debtors on payment of the past due invoices in order to reverse the impact of the doubtful debt assessment in financial year 2021.

The management team is continuously working on ways to increase revenue and reduce operating costs to improve the net operating income and meet the tier ratio in the future.

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Unresolved Prior Year Findings
Year Ended September 30, 2020

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