

**MARSHALL ISLANDS NATIONAL
TELECOMMUNICATIONS AUTHORITY**

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

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH ASPECTS OF CONTRACTUAL
AGREEMENTS AND REGULATORY REQUIREMENTS**

YEAR ENDED SEPTEMBER 30, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS

Board of Directors
Marshall Islands National Telecommunications Authority:

We have audited, 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, the financial statements of the Marshall Islands National Telecommunications Authority (NTA), which comprise the statement of net position as of September 30, 2020, the related statements of revenue, 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. 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. No reports other than the reports referred to above and our Schedule of Findings and Responses related to our audit have been furnished to management.

In connection with our audit, we noted that NTA failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the Rural Utilities Service (RUS) policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below:

Finding No. 1

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.

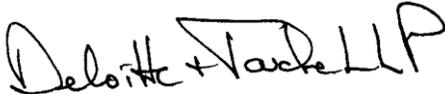
Auditee Response: Two new revenue streams were launched in the second quarter of financial year 2020 - the 4GLTE and the unlimited GSM plan. The 4GLTE revenue stream and the 2/3G VSAT neighbor islands capital projects were launched and implemented over time in financial years 2017 and 2019; however, 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.

* * * * *

This report is intended solely for the information and use of the Board of Directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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

May 14, 2021