

*Financial Statements, Required Supplementary  
Information, and Report on Internal Control and  
Compliance*

**Marshall Islands National Telecommunications  
Authority**

(A Component Unit of the Republic of the Marshall Islands)

*Year ended September 30, 2022  
with Report of Independent Auditors*



Marshall Islands National Telecommunications Authority  
(A Component Unit of the Republic of the Marshall Islands)

Financial Statements and Required Supplementary Information

Year ended September 30, 2022

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## Report of Independent Auditors

The Board of Directors  
Marshall Islands National Telecommunications Authority

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the business-type activities of Marshall Islands National Telecommunications Authority (MINTA), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise MINTA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of MINTA as of September 30, 2022, and the changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MINTA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MINTA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 MINTA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MINTA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 14 be presented to supplement the financial statements. Such information is the responsibility of management and, 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 11, 2024, on our consideration of MINTA'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 MINTA'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 MINTA's internal control over financial reporting and compliance.

*Ernst + Young LLP*

June 11, 2024

**Marshall Islands National Telecommunications Authority**  
(A Component Unit of the Republic of the Marshall Islands)

**Management's Discussion and Analysis**

Year ended September 30, 2022

**Overview**

The Marshall Islands National Telecommunications Authority (MINTA) is the sole provider of communications, technology, information and entertainment products and services to consumers, businesses and government entities. We offer data, video and voice services and solutions on our networks and platforms that are designed to meet customer demand for mobility, reliable network connectivity, security and control. In 2022, we focused on the capabilities of our 4G LTE network to drive growth based on delivering what customers want and need in the digital world. With a market of 42,000 people, we are creating value by catering for all diverse groups of people. In addition to this, the completion of our outer island 2/3G VSAT project together with our vision to connect the unconnected communities has become a reality. All islands within the Marshall Islands are now connected on 2/3G and 4G with MINTA's vision to upgrade to 5G in the near future. MINTA has a diverse workforce of approximately 133 employees as of September 30, 2022.

MINTA is pleased to present its financial statements for fiscal year ended September 30, 2022 with fiscal years 2021 and 2020 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 MINTA's financial statements provides an overview of its financial activities as of and for the year ended September 30, 2022.

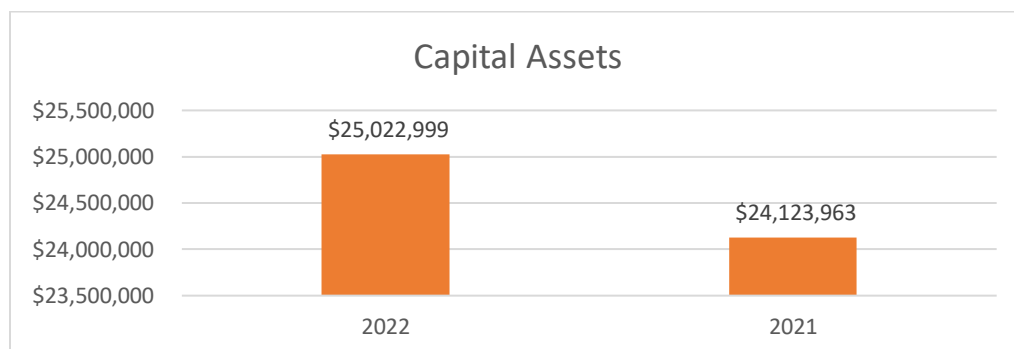
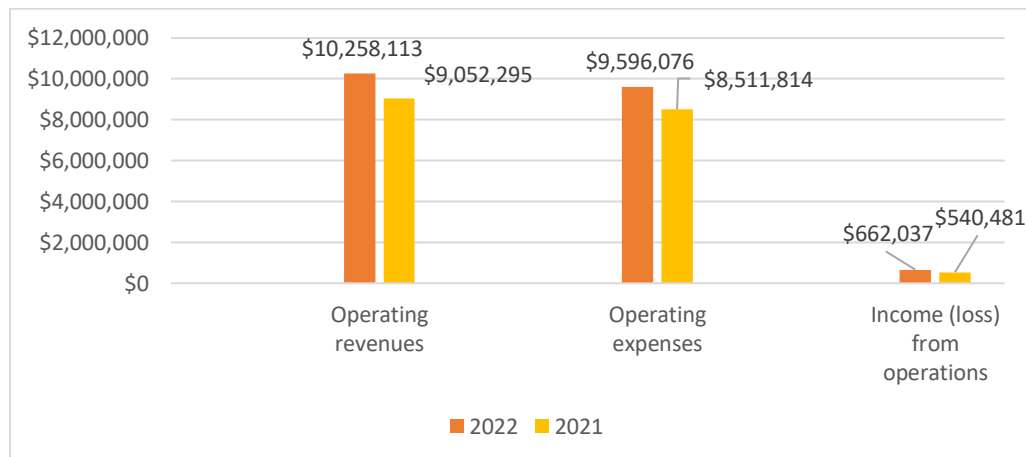
In 2022, MINTA's 2021 financial statements were restated for the correction of an error resulting in capital assets, net of accumulated depreciation, being understated by \$2,335,350. Please refer to Note 12 of the accompanying financial statements for additional information regarding this restatement.

Management's Discussion and Analysis for the year ended September 30, 2021 is set forth in MINTA's report on the audit of financial statements, which is dated August 22, 2022. Such Management Discussion and Analysis explains the major factors impacting the FY2021 financial statements and can be obtained from MINTA's President via the contact information on page 14.

**Marshall Islands National Telecommunications Authority**  
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**Management's Discussion and Analysis, continued**

**Highlights of our 2022 Financial Results**



**Business Overview**

MINTA's strategy is to replace the copper network with fiber and upgrade mobile communications to meet the customer demand and the rapidly evolving ICT sector. As a small geographically isolated country, there are challenges of recouping investment in the rapidly evolving ICT sector. To grow our customer base and improve services, our strategy requires significant investment in upgrading the 4G LTE network and fiber to the premise rollout.

**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 MINTA. 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.

**Marshall Islands National Telecommunications Authority**  
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**Management's Discussion and Analysis, continued**

**Statement of Net Position, continued**

From the data presented, readers of the statement of net position are able to determine the assets available to continue MINTA's operations. They also are able to determine how much MINTA 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 MINTA is improving or deteriorating.

A summary of MINTA's Statements of Net Position as of September 30, 2022 compared with 2021 and 2020 is presented below:

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

	2022	2021 (As Restated)	\$ Change 2022-2021	% Change 2022-2021	2020 (As Restated)
<b>Assets:</b>					
Current and other assets	\$ 7,304,321	\$ 7,281,162	\$ 23,159	0.3%	\$ 7,664,231
Capital assets	<u>25,022,999</u>	<u>24,123,963</u>	<u>899,036</u>	3.7%	<u>21,221,911</u>
Total assets	<u>32,327,320</u>	<u>31,405,125</u>	<u>922,195</u>	2.9%	<u>28,886,142</u>
<b>Liabilities:</b>					
Current and other liabilities	5,030,493	3,400,620	1,629,873	47.9%	1,816,023
Long-term liabilities	<u>15,161,352</u>	<u>15,892,666</u>	( 731,314)	(4.6)%	<u>17,066,097</u>
Total liabilities	<u>20,191,845</u>	<u>19,293,286</u>	<u>898,559</u>	4.7%	<u>18,882,120</u>
<b>Net position:</b>					
Net investment in capital assets	10,870,070	10,334,819	535,251	5.2%	7,969,201
Restricted	---	135,609	( 135,609)	(100.0)%	76,614
Unrestricted	<u>1,265,405</u>	<u>1,641,411</u>	( 376,006)	(22.9)%	<u>1,958,207</u>
Total net position	<u>\$ 12,135,475</u>	<u>\$ 12,111,839</u>	<u>\$ 23,636</u>	0.2%	<u>\$ 10,004,022</u>

Total assets of MINTA increased by \$2,518,983 (or 8.7%) from 2020 to 2021 and increased by \$922,195 (or 2.9%) from 2021 to 2022.

Current and other assets decreased by \$383,069 (or 5%) from 2020 to 2021 and increased by \$23,159 (or 0.3%) from 2021 to 2022. MINTA 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 6.8%) from 2020 to 2021 and decreased by a further \$260,004 (7.3%) from 2021 to 2022. This decrease was the result of annual amortization of this IRU over a period of 25 years.



Marshall Islands National Telecommunications Authority  
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Management's Discussion and Analysis, continued

**Statement of Net Position, continued**

Telecommunications plant in service increased by \$3,203,476 (or 18.4%) from 2020 to 2021 and decreased by \$333,021 (or 1.5%) from 2021 to 2022. These changes are the result of plant additions and transfers from plant under construction of \$5,692,846 in 2021 and \$2,195,247 in 2022 offset by depreciation expense recognized by MINTA of \$2,489,370 in 2021 and \$2,528,268 in 2022. Net plant under construction decreased by \$832,870 (or 55.4%) from 2020 to 2021 and increased by \$1,255,033 (or 187%) from 2021 to 2022.

Total liabilities of MINTA decreased by \$411,166 (or 2.2%) from 2020 to 2021 and increased by \$898,559 (4.7%) from 2021 to 2022.

Long-term liabilities decreased by \$1,704,877 (or 10%) from 2020 to 2021 and further decreased by \$744,414 (or 4.7%) from 2021 to 2022. These decreases are the result of principal repayment of RUS debt in 2021 and 2022. This was made possible through cash subsidies received from RepMar of \$503,000 in 2021 and the impact of the RUS loan agreement amendment reducing the interest rate from 5% per annum to 2% per annum and extending the maturity dates by 10 years.

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

Total net position of MINTA is affected by the changes in both assets and liabilities resulting in an increase in net position of \$2,107,817 (or 21.1%) in 2021 and an increase of \$23,636 (or 0.2%) in 2022.

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

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 MINTA. 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 MINTA without directly giving equal value in return. For example, investment income is non-operating because it is earned without providing telecommunications goods or services.

**Marshall Islands National Telecommunications Authority**  
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**Management's Discussion and Analysis, continued**

**Statement of Revenues, Expenses, and Changes in Net Position, continued**

A summary of MINTA's Statements of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2022 compared with 2021 and 2020 is presented below:

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

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Operating:					
Operating revenues	\$ 10,258,113	\$ 8,990,878	\$ 1,267,235	14.1%	\$ 8,660,196
Operating expenses	<u>9,596,076</u>	<u>8,450,397</u>	<u>1,145,679</u>	13.6%	<u>8,354,299</u>
Operating income	<u>662,037</u>	<u>540,481</u>	<u>121,556</u>	22.5%	<u>305,897</u>
Nonoperating:					
Nonoperating revenues	18,214	519,813	( 501,599)	(96.5)%	1,608,352
Nonoperating expenses	<u>656,615</u>	<u>715,167</u>	<u>( 58,552)</u>	(8.2)%	<u>774,240</u>
Nonoperating loss	<u>( 638,401)</u>	<u>( 195,354)</u>	<u>( 443,047)</u>	226.8%	<u>834,112</u>
Income before capital contributions					
contributions	23,636	345,127	( 321,491)	(93.2)%	1,140,009
Capital contributions	<u>---</u>	<u>1,762,690</u>	<u>(1,762,690)</u>	(100.0)%	<u>147,824</u>
Change in net position	<u>\$ 23,636</u>	<u>\$ 2,107,817</u>	<u>\$ (2,084,181)</u>	(98.9)%	<u>\$ 1,287,833</u>

The Statement of Revenues, Expenses, and Changes in Net Position identifies the various revenue and expense items that affect net position. In this section, we discuss below our overall results of operations and highlight special items.

**Operating Revenue**

Year ended September 30,	2022	2021	Increase/(Decrease) 2022 vs. 2021
Private line access	\$ 4,658,477	\$4,906,740	\$ (248,263) -5%
Local cellular network services (GSM)	1,842,307	1,948,252	(105,945) -5%
4G LTE	2,072,595	1,175,802	896,793 76%
GSM unlimited	1,127,638	730,178	397,460 54%
Long distance network services	414,257	515,919	(101,662) -20%
Local network services	422,340	390,602	31,738 8%
Wireless television services	103,179	113,446	( 10,267) -9%
Miscellaneous	68,290	37,984	30,306 80%
Bad debt expense	<u>( 450,970)</u>	<u>( 828,045)</u>	377,075 -46%
<b>Total operating revenue</b>	<u><b>\$10,258,113</b></u>	<u><b>\$8,990,878</b></u>	<u><b>\$1,267,235 14%</b></u>

Marshall Islands National Telecommunications Authority  
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

**Statement of Revenues, Expenses, and Changes in Net Position, continued**

Operating Revenue, continued

As highlighted in the overview, the 4G LTE and GSM network are growth drivers and are outperforming traditional telecom revenue streams year on year. In FY2022, the 4G LTE data and GSM unlimited plans grew by 76% and 54%, respectively, compared to the same period last year. Customers demand more mobility of service and use the over the top (OTTP) applications to communicate overseas and within the country. Long distance revenue, which used to be a driver of revenue, has declined by 20% from 2021. Miscellaneous revenue consisting of all counter sale items of handsets, modems, and other accessories are growing due to the availability of mid-range phones that are affordable by a majority of customers.

Operating Expenses

Years ended September 30,	2022	2021	Increase/(Decrease)	
			2022 vs. 2021	
Plant specific operations	\$3,153,637	\$2,706,557	\$ 447,080	17%
Depreciation and amortization	2,811,248	2,749,374	61,874	2%
Plant nonspecific operation	1,879,091	1,585,731	293,360	18%
Consumer operation	644,471	582,212	62,259	11%
Corporate operations	1,107,629	826,523	281,106	34%
<b>Total operating expenses</b>	<b>\$9,596,076</b>	<b>\$8,450,397</b>	<b>\$1,145,679</b>	<b>14%</b>

Major decrease in plant non-specific operations due to the cost of bandwidth for the outer island project. Plant specific operations increase by 17% largely due to increase in third party charges for service level agreements.

Non-operating Revenue and Expenses

Years ended September 30,	2022	2021	Increase/(Decrease)	
			2022 vs. 2021	
Operating grant from Rep Mar	\$ ---	\$ 503,000	\$(503,000)	-100%
Interest and dividends	18,214	16,813	1,401	8%
Dividends declared	(359,532)	---	(359,532)	-100%
Interest expense	(297,083)	(715,167)	418,084	-58%
<b>Total nonoperating expenses, net</b>	<b>\$(638,401)</b>	<b>\$(195,354)</b>	<b>\$(443,047)</b>	<b>227%</b>

Following the successful restructuring of the Rural Utilities Services (RUS) loan for the HANTRU-1 cable, the interest rate was reduced from 5% to 2% resulting in a savings of 60% on interest expense in FY2022 as compared to FY2021. The Republic of Marshall Islands (RMI) government has also ceased with the subsidy for the cost of the RUS loan.

**Marshall Islands National Telecommunications Authority**  
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**Management's Discussion and Analysis, continued**

**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, 2022 compared with 2021 and 2020 is presented below:

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

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Operating contributions:					
RepMar General Fund	\$ ---	\$ 503,000	\$ ( 503,000)	(100.0)%	\$ 950,000
ROC Taiwan	---	---	---		640,000
Capital contributions:					
ROC Capital Projects	---	---	---		147,824
	<u>\$ ---</u>	<u>\$ 503,000</u>	<u>\$ ( 503,000)</u>	(100.0)%	<u>\$ 1,737,824</u>

The capital contributions received by MINTA 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.

**Capital Assets and Debt Administration**

**Capital Assets**

Net capital assets increased by \$2,902,052 (or 13.7%) from 2020 to 2021 and further increased by \$899,036 (or 3.7%) from 2021 to 2022.

The net increase in 2021 is the result of plant additions of \$4,859,976 exceeding depreciation expense of \$2,489,370 whereas the net increase in 2022 is the result of plant additions of \$3,464,663 exceeding depreciation expense of \$2,528,268. Plant additions in 2021 and 2022 included the construction and completion of Intelsat and outer island 2/3G VSAT broadband installations.

MINTA continues to invest in network by improving wireless network, high speed fiber and outer island 2/3G VSAT broadband to position ourselves at the center of growth trends for the future. During the year ended September 30, 2022, we capitalized \$2.8 million worth of projects. MINTA's management believes that the investments aimed at expanding MINTA's portfolio of products and services will provide the customers with an efficient, reliable infrastructure for competing in the information technology economy.

Marshall Islands National Telecommunications Authority  
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Management's Discussion and Analysis, continued

**Capital Assets and Debt Administration, continued**

Capital Assets, continued

*Global Network and Technology*

MINTA's management are focusing capital spending on adding capacity and density to the 4G LTE network, while also building out the outer island 2/3G network. In 2022, MINTA added an additional band to the 4G LTE network through the carrier aggregation project to assist with the congestion in the 4G LTE network. A total of \$735,935 was invested in the 4G LTE network.

A summary of MINTA's capital assets as of September 30, 2022 compared with 2021 and 2020 is presented below:

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

	2022	2021 (As Restated)	\$ Change 2022-2021	% Change 2022-2021	2020 (As Restated)
Nondepreciable plant assets:					
Plant under construction	\$ 1,926,363	\$ 671,330	\$ 1,255,033	186.9%	\$ 1,504,200
Telecommunications plant in service:					
Central office assets	22,148,676	20,274,645	1,874,031	9.2%	14,721,035
Cable and wire facilities assets	12,187,767	12,021,252	166,515	1.4%	11,994,871
General support assets	10,740,628	10,703,716	36,912	0.3%	10,626,917
Wireless phone assets	7,855,840	7,855,840	---	0.0%	7,855,840
Wireless TV assets	1,592,250	1,474,461	117,789	8.0%	1,438,405
	54,525,161	52,329,914	2,195,247	4.2%	46,637,068
Accumulated depreciation	(31,936,995)	(29,408,727)	( 2,528,268)	8.6%	(26,919,357)
	22,588,166	22,921,187	( 333,021)	(1.5)%	19,717,711
Lease assets:					
Right-to-use assets	531,446	531,446	---	0.0%	---
Accumulated amortization	( 22,976)	---	( 22,976)		---
	508,470	531,446	( 22,976)	(4.3)%	---
	<u>\$ 25,022,999</u>	<u>\$ 24,123,963</u>	<u>\$ 899,036</u>	3.7%	<u>\$ 21,221,911</u>

Please refer to Note 4 of the accompanying financial statements for additional information regarding MINTA's capital assets.

Marshall Islands National Telecommunications Authority  
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

**Capital Assets and Debt Administration, continued**

**Long-Term Liabilities**

Long-term liabilities decreased by \$1,173,431 (or 6.9%) from 2020 to 2021 and further decreased by \$731,314 (or 4.6%) from 2021 to 2022. The decrease in 2021 and 2022 is the result of principal repayment of RUS debt and initial recognition of lease liabilities under the requirements of GASB Statement No. 87.

A summary of MINTA's long-term liabilities as of September 30, 2022 compared with 2021 and 2020 is presented below:

**Summary Schedule of Long-Term Liabilities**  
As of September 30

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Notes payable:					
RUS loans	\$ 13,955,898	\$ 14,661,220	\$ (705,322)	(4.8)%	\$ 16,366,097
Lease liabilities:					
Land lease	505,454	531,446	( 25,992)	(4.9)%	---
Loan payable:					
RepMar	700,000	700,000	---		700,000
	<u>\$ 15,161,352</u>	<u>\$ 15,892,666</u>	<u>\$ (731,314)</u>	(4.6)%	<u>\$ 17,066,097</u>

*RUS Notes Payable*

In 2009, MINTA 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 did not provide enough revenue opportunities to service this amount of debt and resulted with MINTA becoming reliant upon RepMar for government subsidies. Initially, no subsidies were received in 2010 or 2011, which resulted in MINTA being forced to default on loan payments in 2012. The RepMar government, as guarantor, was required to make loan subsidy payments to MINTA in order for MINTA to make loan payments on the delinquent loans. In 2013, MINTA began making reduced monthly loan payments covering slightly more than loan interest. By 2015, MINTA owed \$1,100,000 in RUS loan arrearages. In 2016, RepMar provided subsidy payments of \$1,344,465, which allowed MINTA to make partial payments on its RUS arrears; however, by 2016, MINTA owed \$1,218,320 in RUS loan arrearages.

Marshall Islands National Telecommunications Authority  
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Management's Discussion and Analysis, continued

**Capital Assets and Debt Administration, continued**

Long-Term Liabilities, continued

*RUS Notes Payable, continued*

In 2017, RepMar provided subsidy payments of \$2,182,400 to MINTA to pay for past arrearages with RUS. These payments allowed MINTA to come current with its arrears with RUS. In 2020 and 2021, RepMar provided subsidy payments to MINTA of \$1,590,000 and \$503,000, respectively, to assist with RUS loan payments. In 2021, MINTA entered into an RUS loan agreement amendment reducing the interest on RUS debt from 5% per annum to 2% per annum and extending the maturity dates by 10 years. MINTA is now current with its loan obligations with RUS.

Under the terms of the RUS loans, MINTA is required to maintain a minimum times interest earned ratio of 1.5 from December 31, 2012 until maturity of the loans. As of September 30, 2022, MINTA is compliant with this covenant.

*RepMar Loan Payable*

In 2011, MINTA entered into a \$1,000,000 loan agreement with RepMar to be paid in 10 annual installments of \$100,000. It was MINTA's understanding that the loan would be converted to a grant; however, because of JEMFAC opposition, the conversion never took place. MINTA was unable to make repayments from 2012 through 2018 and, as a result, MINTA was 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 had been classified as a current liability as of September 30, 2020.

In 2021, a standstill agreement was signed with RepMar as a precondition to the RUS restructured loan to hold off the amount owed to RepMar until the RUS loan has been fully paid. As a result, the loan has been reclassified to long-term debt.

MINTA does not have any other 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 agreement.

*Land Lease Liability*

In 2022, MINTA adopted GASB Statement No. 87, *Leases*, resulting in the recognition of right-to-use leased assets and related lease liabilities in the initial amount of \$531,446.

Refer to Notes 5 and 7 to the accompanying financial statements for additional discussion on MINTA's long-term liabilities.

Marshall Islands National Telecommunications Authority  
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

**Economic Outlook**

MINTA continues to work strategically to invest in its network and obtain funding to replace its aging infrastructure. With a declining population and with the intensive capital, MINTA has been launching creating bundles and plans to maximize revenue and add value for its shareholders.

**Financial Contact**

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



Marshall Islands National Telecommunications Authority  
(A Component Unit of the Republic of the Marshall Islands)

Statement of Net Position

September 30, 2022

**Assets**

Current assets:	
Cash	\$ 695,611
Time certificate of deposit	863,694
Accounts receivable, net of an allowance for doubtful accounts of \$1,279,015	1,958,613
Inventory	349,871
Due from external carriers	6,663
Other receivables, net of an allowance for doubtful accounts of \$17,179	61,401
Other current assets	<u>75,089</u>
Total current assets	4,010,942
Capital assets:	
Nondepreciable capital assets	1,926,363
Capital assets, net of accumulated depreciation	22,588,166
Lease assets, net	508,470
Indefeasible right of use, net	<u>3,293,379</u>
	<u><u>\$ 32,327,320</u></u>

**Liabilities and Net Position**

Current liabilities:	
Accounts payable - trade	\$ 966,266
Accounts payable - affiliates	329,176
Contracts payable	1,959,626
Advance from RepMar	300,000
Customer deposits and advance billings	555,346
Unearned revenues	296,380
Current portion of lease liabilities	11,100
Current portion of long-term debt	719,520
Other accrued liabilities	<u>623,699</u>
Total current liabilities	5,761,113
Noncurrent liabilities:	
Lease liabilities, net of current portion	494,354
Long-term debt, net of current portion	<u>13,936,378</u>
Total noncurrent liabilities	<u>14,430,732</u>
Total liabilities	<u>20,191,845</u>
Commitments and contingencies	
Net position:	
Net investment in capital assets	10,870,070
Unrestricted	<u>1,265,405</u>
Total net position	<u>12,135,475</u>
	<u><u>\$ 32,327,320</u></u>

*See accompanying notes.*

Marshall Islands National Telecommunications Authority  
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Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2022

Operating revenues:	
Private line access	\$ 4,658,477
4G LTE services	2,072,595
Local cellular network services	1,842,307
GSM unlimited plan	1,127,638
Local network services	422,340
Long distance network services	414,257
Wireless television services	103,179
Miscellaneous	68,290
Bad debt expense	<u>( 450,970)</u>
Total operating revenues	<u>10,258,113</u>
Operating expenses:	
Plant specific operations	3,153,637
Depreciation and amortization	2,811,248
Plant nonspecific operations	1,879,091
Corporate operations	1,107,629
Consumer operations	<u>644,471</u>
Total operating expenses	<u>9,596,076</u>
Income from operations	<u>662,037</u>
Nonoperating revenues (expenses):	
Interest and dividends	18,214
Dividends declared	( 359,532)
Interest expense	<u>( 297,083)</u>
Total nonoperating expenses, net	<u>( 638,401)</u>
Change in net position	23,636
Net position at beginning of year (as restated)	<u>12,111,839</u>
Net position at end of year	<u><u>\$ 12,135,475</u></u>

See accompanying notes.

Marshall Islands National Telecommunications Authority  
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Statement of Cash Flows

Year ended September 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$ 10,519,518
Cash payments to suppliers for goods and services	( 4,926,392)
Cash payments to employees for services	<u>( 1,923,876)</u>
Net cash provided by operating activities	<u>3,669,250</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	( 2,571,826)
Principal paid on RUS long-term debt	( 705,322)
Interest paid on RUS long-term debt	( 286,743)
Principal paid on lease liabilities	( 25,992)
Interest paid on lease liabilities	<u>( 10,340)</u>
Cash used in capital and related financing activities	<u>( 3,600,223)</u>
Cash flows from investing activities:	
Net increase in time certificates of deposit	( 17,785)
Interest received	<u>18,214</u>
Net cash provided by investing activities	<u>429</u>
Net change in cash	69,456
Cash at beginning of year	<u>626,155</u>
Cash at end of year	<u><u>\$ 695,611</u></u>
Reconciliation of income from operations to net cash provided by operating activities:	
Income from operations	\$ 662,037
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation and amortization	2,811,248
Bad debt expense	450,970
Changes in assets and liabilities:	
Accounts receivable	( 693,644)
Inventory	( 15,126)
Due from external carriers and other receivables	30,880
Other current assets	( 12,361)
Accounts payable	( 71,848)
Customer deposits and advanced billings	206,524
Unearned revenue	254,111
Other accrued liabilities	<u>46,459</u>
Net cash provided by operating activities	<u><u>\$ 3,669,250</u></u>

See accompanying notes.

Marshall Islands National Telecommunications Authority  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements

Year Ended September 30, 2022

**1. Organization**

The Marshall Islands National Telecommunications Authority (MINTA), a component unit of the Republic of the Marshall Islands (RepMar), was established by the Marshall Islands National Telecommunications Authority Act 1990, as amended, for the purpose of operating as 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. MINTA serves commercial and residential customers in the Marshall Islands.

Prior to the creation of MINTA, telecommunication services in the Marshall Islands were administered under RepMar's Ministry of Transportation, Communications and Information Technology. An appraisal of MINTA'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 MINTA. Pursuant to the results of the appraisal, the Board of Directors determined the initial capital of MINTA 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. 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 MINTA 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. Ten dollars 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. On June 30, 2022, the Board of Directors declared a dividend of \$359,532 as of September 30, 2022.

MINTA is governed by a nine-member Board of Directors elected by MINTA stockholders. RepMar owns a voting majority of MINTA stock and has unconditionally guaranteed the majority of MINTA's RUS debt.

MINTA's financial statements are incorporated into the financial statements of RepMar as a component unit.

Marshall Islands National Telecommunications Authority  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies**

MINTA maintains a chart of accounts in accordance with the Uniform System of Accounts for telephone companies of the United States Federal Communications Commission's (FCC) 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.

To conform to these requirements, equity is presented in the following net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.
- Restricted - net position whose use by MINTA is subject to externally imposed stipulations that can be fulfilled by actions of the MINTA pursuant to those stipulations or that expire with the passage of time. MINTA has no restricted net position as of September 30, 2022.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties. As of September 30, 2022, unrestricted net position is designated as follows:

Common stock, 360,000 shares authorized;	
317,404 shares issued; 316,936 shares outstanding	\$3,600,000
Additional paid-in capital	777,101
Treasury stock, 468 shares at par value	( 4,680)
Unrestricted	<u>(3,107,016)</u>
	<u>\$1,265,405</u>

When both restricted and unrestricted resources are available for use for the same purpose, it is MINTA's policy to use unrestricted resources first, then restricted resources as they are needed.

Marshall Islands National Telecommunications Authority  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**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 statement 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.

**Cash and Cash Equivalents and Time Certificates of Deposit**

Custodial credit risk is the risk that in the event of a bank failure, MINTA'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 or held by the pledging financial institution but not in the depositor-government's name. MINTA does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and cash flows, cash and cash equivalents are defined as cash on hand and cash held in demand and savings accounts as well as short-term investments with a maturity date within three months of the date acquired by MINTA. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified in the statement of net position. As of September 30, 2022, the carrying amount of cash and cash equivalents and time certificates of deposit was \$1,559,305 and the corresponding bank balance was \$1,559,789. Of the bank balance amount, \$558,615, was maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$1,001,174, was maintained in a financial institution not subject to depository insurance.

As of September 30, 2022, bank deposits in the amount of \$250,000 were FDIC insured. MINTA 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.

**Receivables**

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.

Marshall Islands National Telecommunications Authority  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Receivables, continued**

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

**Materials and Supplies Inventory**

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. MINTA 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 as of September 30, 1989, was valued by an independent source in order to determine estimated cost. All other assets are valued at actual purchase cost. Depreciation of property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives of these assets are as follows:

	<u>Estimated Useful Lives</u>
Central office assets	5 - 20 years
Cable and wire facilities assets	20 - 25 years
General support assets	5 - 40 years
Wireless phone assets	15 years
Wireless television assets	5 - 10 years

Marshall Islands National Telecommunications Authority  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Indefeasible Right of Use**

MINTA 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**

MINTA, 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 carrying value or fair value. During the year ended September 30, 2022, no assets had been written down.

**Leases**

MINTA is a party as lessee for various noncancellable long-term land leases. MINTA determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, land, or equipment in exchange for consideration. Leases result in the recognition of right-to-use lease assets and lease liabilities on the statement of net position. Lease assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis.

**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. MINTA 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.



Marshall Islands National Telecommunications Authority  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**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. MINTA has no items that qualify for reporting in this category.

**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 are 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. MINTA 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.

**Recently Adopted Accounting Pronouncements**

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed 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, MINTA's management has elected to postpone implementation of these statements.

During the year ended September 30, 2022, MINTA implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which 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. As a result of adoption of GASB Statement No. 87, MINTA has recognized right-to-use leased assets and related lease liabilities in the initial amount of \$531,446.

Marshall Islands National Telecommunications Authority  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements, continued**

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances 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. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The implementation of this statement did not have a material effect on the accompanying financial statements.

Marshall Islands National Telecommunications Authority  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements, continued**

- GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:
  - 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
  - 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
  - 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
  - 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
  - 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Marshall Islands National Telecommunications Authority  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements, continued**

- 6) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

**Upcoming Accounting Pronouncements**

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 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.

Marshall Islands National Telecommunications Authority  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

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.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.

Marshall Islands National Telecommunications Authority  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.
- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

Marshall Islands National Telecommunications Authority  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Taxes**

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. Instead, RepMar 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, MINTA is exempt from this tax relating to gross revenue from sales of telecommunications services.

**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. Accounts Receivable**

Accounts receivable as of September 30, 2022, net of allowance for uncollectible accounts, consist of the following:

Trade	\$2,461,933
Affiliates	744,280
Employees	<u>31,415</u>
	3,237,628
Allowance for uncollectible accounts	<u>(1,279,015)</u>
	<u>\$1,958,613</u>

Marshall Islands National Telecommunications Authority  
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Notes to Financial Statements, continued

**4. Capital Assets**

Capital asset activities for the year ended September 30, 2022, were as follows:

	October 1, 2021 (As restated)	<u>Additions</u>	Transfers and <u>Disposals</u>	September 30, 2022
Nondepreciable capital assets:				
Plant under construction	\$ <u>671,330</u>	\$ <u>3,191,761</u>	\$( <u>1,936,728</u> )	\$ <u>1,926,363</u>
Depreciable capital assets:				
Central office assets	20,274,645	1,874,031	---	22,148,676
Cable and wire facilities assets	12,021,252	166,515	---	12,187,767
General support assets	10,703,716	36,912	---	10,740,628
Wireless phone assets	7,855,840	---	---	7,855,840
Wireless television assets	<u>1,474,461</u>	<u>117,789</u>	<u>---</u>	<u>1,592,250</u>
	52,329,914	2,195,247	---	54,525,161
Less accumulated depreciation	( <u>29,408,727</u> )	( <u>2,528,268</u> )	<u>---</u>	( <u>31,936,995</u> )
	<u>22,921,187</u>	( <u>333,021</u> )	<u>---</u>	<u>22,588,166</u>
Lease assets:				
Right-to-use assets	531,446	---	---	531,446
Less accumulated amortization	<u>---</u>	( <u>22,976</u> )	<u>---</u>	( <u>22,976</u> )
	<u>531,446</u>	( <u>22,976</u> )	<u>---</u>	<u>508,470</u>
	<u>\$24,123,963</u>	<u>\$2,835,764</u>	\$( <u>1,936,728</u> )	<u>\$25,022,999</u>



Marshall Islands National Telecommunications Authority  
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Notes to Financial Statements, continued

**5. Leases**

MINTA is a lessee under non-cancelable leases for certain parcels of land. The terms of the agreements range from 15 to 25 years generally at fixed quarterly payments with no variable payments or escalation clauses. The calculated interest rates used was 2%.

The following is a summary of principal and interest requirements to maturity for the lease liabilities as of September 30, 2022:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 11,100	\$ 10,081	\$ 21,181
2024	19,012	9,745	28,757
2025	19,395	9,362	28,757
2026	19,785	8,971	28,756
2027	20,184	8,572	28,756
2028 - 2032	107,188	36,595	143,783
2033 - 2037	113,412	25,389	138,801
2038 - 2042	104,201	14,675	118,876
2043 - 2047	<u>91,177</u>	<u>3,922</u>	<u>95,099</u>
	<u>\$ 505,454</u>	<u>\$ 127,312</u>	<u>\$ 632,766</u>

**6. Infeasible Right of Use (IRU)**

In 2009, MINTA 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), known as the “HANTRU1 System”, which runs between Guam and Kwajalein.

Under the terms of the agreement, MINTA made payments amounting to \$6,500,091. The initial term of the agreement is for a period of 10 years commencing on the date when MINTA is initially granted access, and for 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, MINTA 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. MINTA’s policy is to amortize the IRU over the 25-year period. As of September 30, 2022, accumulated amortization amounting to \$3,206,712 has been recorded.

Marshall Islands National Telecommunications Authority  
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Notes to Financial Statements, continued

**7. Long-term Liabilities**

A summary of changes in long-term liabilities for the year ended September 30, 2022 are as follows:

	October 1, 2021	<u>Additions</u>	<u>Reductions</u>	September 30, 2022	Due Within One Year
<u>Notes payable:</u>					
RUS loans	\$14,661,220	\$ ---	\$(705,322)	\$13,955,898	\$719,520
<u>Lease liabilities:</u>					
Land lease	531,446	---	( 25,992)	505,454	11,100
<u>Loans payable:</u>					
RepMar	<u>700,000</u>	<u>---</u>	<u>---</u>	<u>700,000</u>	<u>---</u>
	<u>\$15,892,666</u>	<u>\$ ---</u>	<u>\$(731,314)</u>	<u>\$15,161,352</u>	<u>\$730,620</u>

**Notes Payable**

Long-term notes payable as of September 30, 2022 are as follows:

Rural Utilities Service (RUS) Loan A	\$ 3,546,468
Rural Utilities Service (RUS) Loan C	<u>10,409,430</u>
	<u>\$13,955,898</u>

Substantially all assets of MINTA, including specific MINTA ground leases, are pledged to secure the RUS notes. RUS Loan A amounting to \$18,800,000, originally approved in 1989, with interest rate at 5% per annum and maturing on various dates through June 4, 2027, has been unconditionally guaranteed by RepMar, under which RepMar agrees to perform debt service payments to RUS in the event of default by MINTA.

In 2009, MINTA was approved for additional funding from RUS (RUS Loan C) amounting to \$18,500,000, with interest rates ranging from 3.64% to 5% per annum and maturing on March 12, 2031, for purposes of construction of a deep-sea cable route between Majuro, Kwajalein and Guam. RepMar has also guaranteed up to \$1,500,000 annually for the RUS debt service.

In 2021, MINTA entered into a loan agreement amendment reducing the interest rates on both RUS Loan A and Loan C to 2% per annum and extending respective maturity dates by additional 10 years.

MINTA's management believes that MINTA is compliant with all covenants, agreements and conditions of the RUS loans as of and for the year ended September 30, 2022.

Marshall Islands National Telecommunications Authority  
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Notes to Financial Statements, continued

**7. Long-term Liabilities, continued**

**Notes Payable, continued**

The terms of the loan agreement contain provisions and restrictions pertaining to, among other things, the declaration or payment of cash dividends and the times interest earned ratio. In 2022, MINTA met the required times interest earned ratio.

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

Year ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 719,520	\$ 272,545	\$ 992,065
2024	733,852	258,213	992,065
2025	749,030	243,035	992,065
2026	763,974	228,091	992,065
2027	779,395	212,670	992,065
2028 - 2032	4,139,269	821,055	4,960,324
2033 - 2037	3,839,913	403,290	4,243,203
2038 - 2042	<u>2,230,945</u>	<u>78,992</u>	<u>2,309,937</u>
	<u>\$13,955,898</u>	<u>\$2,517,891</u>	<u>\$16,473,789</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. The primary requirements of the loan agreements are summarized below:

*Rate covenant* - MINTA 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 MINTA, without the prior written consent of RUS, to incur additional indebtedness while MINTA maintains a TIER below 1.0; or if the additional indebtedness will cause MINTA'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. MINTA 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.

Marshall Islands National Telecommunications Authority  
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Notes to Financial Statements, continued

**7. Long-term Liabilities, continued**

**Notes Payable, continued**

*Acceleration of payments* - Upon the occurrence of an Event of Default and is continuing, RUS may, by notice in writing to MINTA, 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.

**Loan Payable**

In 2011, MINTA 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. MINTA was unable to make repayments from 2012 through 2018 and, as a result, MINTA was 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. In 2021, MINTA entered into a standstill agreement with RepMar whereby repayment of this loan was deferred until the RUS notes are paid in full.

**8. Related Party Transactions**

MINTA is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. MINTA'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. MINTA 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 as of and for the year ended September 30, 2022 are as follows:

	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 51,668	\$ 571,854	\$ 53,125
Marshall's Energy Company, Inc.	520,817	21,884	103,126
Marshall Islands Social Security Administration	187,892	1,862	145,795
Others	<u>162,574</u>	<u>148,680</u>	<u>27,130</u>
	<u>\$ 922,951</u>	<u>\$ 744,280</u>	<u>\$ 329,176</u>

In 2016, MINTA 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 MINTA. Reimbursement has yet to occur as of September 30, 2022.

Marshall Islands National Telecommunications Authority  
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Notes to Financial Statements, continued

**9. Employee Retirement Plan**

MINTA has implemented a defined contribution retirement savings plan (the Plan) for its employees who have completed at least three (3) months of service. 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 MINTA contributes 100% of a participant's elective deferral up to 10 percent of the participant's annual salary. Participation is optional. MINTA's Plan administrator includes the President of MINTA and certain members of management. Withdrawal from the Plan occurs upon termination of employment, retirement at age 65, permanent disability or death. Plan assets are held in a trust fund administered by a trustee in accordance with the trust agreement. Management has the authority to establish or amend Plan provisions and contribution requirements. During the year ended September 30, 2022, MINTA contributed \$65,858 to Plan participant accounts. As of September 30, 2022, total Plan assets were \$1,254,274.

**10. Risk Management**

MINTA purchases insurance to cover risks associated with its buildings and equipment (\$27,167,125 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. MINTA also purchases insurance for its vehicles (up to \$25,000 of coverage per vehicle per incident). Additionally, MINTA purchases workmen's compensation insurance (coverage of up to \$40,000 limit of liability).

**11. Commitments and Contingencies**

**Short Term and Circuit Leases**

MINTA has entered operating lease for office space with Marshall Islands Development Bank (MIDB) with a term of one (1) year. MINTA has also entered into various circuit leases expiring from 2023 through 2026.

Approximate future minimum annual lease payments are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Total</u>
2023	\$1,462,512
2024	1,440,912
2025	1,434,912
2026	<u>996,704</u>
	<u>\$5,335,040</u>

Marshall Islands National Telecommunications Authority  
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Notes to Financial Statements, continued

**11. Commitments and Contingencies, continued**

**Operation, Management and Repair (OM&R) Agreement**

In 2009, MINTA, 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 MINTA 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</u> <u>September 30,</u>	<u>Total</u>
2023	\$ 111,141
2024	114,475
2025	117,909
2026	121,447
2027	125,090
2028-2032	684,044
2033-2035	<u>376,787</u>
	<u>\$1,650,893</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 MINTA for settlement with certain U.S. carriers. The ultimate outcome of this matter and the related impact on MINTA cannot be reasonably estimated at this time.

**Exclusive Right**

In April 2022, Bill 66 was passed by the Nitijela of RepMar removing MINTA’s exclusive right to manage and operate domestic and international telecommunications services in the Marshall Islands. While MINTA 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.

Marshall Islands National Telecommunications Authority  
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Notes to Financial Statements, continued

**12. Restatement**

Subsequent to the issuance of the MINTA's 2021 financial statements, MINTA's management determined that the opening accumulated depreciation were overstated by \$2,335,350, resulting in capital assets, net of accumulated depreciation, being understated by \$2,335,350. As a result of this determination, capital assets, net of accumulated depreciation, and total net position have been restated from the amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
As of September 30, 2021			
Capital assets:			
Capital assets, net of accumulated depreciation	\$ <u>20,585,837</u>	\$ <u>2,335,350</u>	\$ <u>22,921,187</u>
Net position:			
Net investment in capital assets	\$ 9,449,330	\$ 885,489	\$10,334,819
Restricted	135,609	---	135,609
Unrestricted	<u>191,550</u>	<u>1,449,861</u>	<u>1,641,411</u>
Total net position	\$ <u>9,776,489</u>	\$ <u>2,335,350</u>	\$ <u>12,111,839</u>

## Report of Independent Auditors 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*

The 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 business-type activities of Marshall Islands National Telecommunications Authority (MINTA), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise MINTA's basic financial statements, and have issued our report thereon dated June 11, 2024.

### Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MINTA'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 MINTA's internal control. Accordingly, we do not express an opinion on the effectiveness of MINTA's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that were not identified.



## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether MINTA'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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 result 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.

*Ernst + Young LLP*

June 11, 2024