A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
FINANCIAL STATEMENTS	
Statement of net assets	7-8
Statement of revenues, expenses, and changes in net assets	9
Statement of net assets and stockholders' equity	10
Statement of cash flows	11-12
Notes to financial statements	13-25
INDEPENDENT AUDITOR'S 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*	26-27
INDEPENDENT AUDITOR'S MANAGEMENT LETTER	28-31

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Marshall Islands National Telecommunications Authority
Majuro, Republic of the Marshall Islands

We have audited the accompanying financial statements of net assets of Marshall Islands National Telecommunications Authority (the Authority), a component unit of the Republic of the Marshall Islands, as of September 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets, net assets and stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Marshall Islands National Telecommunications Authority's internal control over financial reporting. Accordingly, we express no opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marshall Islands National Telecommunications Authority, as of September 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2010, on our consideration of Marshall Islands National Telecommunications Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP

Spokane, Washington
December 13, 2010

INTRODUCTION

The following unaudited management's discussion and analysis (MD&A) is required supplemental information.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The Marshall Islands National Telecommunications Authority (the Authority or NTA) is proud to present its financial statements for fiscal year 2010 with fiscal year 2009 prior year data presented for comparative purposes. There are four financial statements presented: the statement of net assets, the statement of revenues, expenses, and changes in net assets, the statement of net assets and stockholders' equity, 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 assets:
The statement of net assets presents the assets, liabilities, and net assets and stockholders' equity as of the end of the fiscal year. The statement of net assets is a point of time financial statement. The purpose of the statement of net assets is to present to the readers of the financial statements a fiscal snapshot of the Authority. The statement of net assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets and stockholders' equity (assets minus liabilities). Significant statement of net assets items are discussed in the footnotes to the financial statements.

From the data presented, readers of the statement of net assets are able to determine the assets available to continue the operation of the Authority. They also are able to determine how much the Authority owes vendors, investors, and lending institutions. Finally, the statement of net assets provides a picture of the net assets and stockholders' equity (assets minus liabilities), which is a useful indicator of whether the financial position of the Authority is improving or deteriorating.

Statement of net assets (continued):

Condensed Statement of Net Assets	2010	2009	2008
Assets			
Current assets	$ **3,069,879**	$ 4,203,414	$ 4,645,677
Plant assets, net	**36,111,935**	33,947,192	17,011,517
Other noncurrent assets	**916,331**	958,209	1,120,712
TOTAL ASSETS	$ **40,098,145**	$ 39,108,815	$ 22,777,906
Liabilities			
Current liabilities	$ **1,723,713**	$ 2,132,247	$ 2,011,460
Noncurrent liabilities	**29,108,041**	27,766,373	12,388,443
Total liabilities	**30,831,754**	29,898,620	14,399,903
Invested in capital assets, net of related debt	**6,060,983**	5,378,243	4,883,215
Unrestricted net assets	**3,205,408**	3,831,952	3,494,788
Total net assets and stockholders' equity	**9,266,391**	9,210,195	8,378,003
TOTAL LIABILITIES AND NET ASSETS AND STOCKHOLDERS' EQUITY	$ **40,098,145**	$ 39,108,815	$ 22,777,906

The total assets of the Authority increased $989,330. A review of the statement of net assets will reveal the cash and equivalents, telecommunications receivables, bad debt allowance, and other account receivables increased moderately while materials and supplies and affiliate accounts receivables decreased slightly. Investments, deposits (net of certificates of deposit), and telecom plant under construction decreased significantly while telecom in service increased considerably to generate an overall increase in assets.

The total liabilities of the Authority increased $933,134. The primary cause for change is the increase in long-term debt.

The total net assets of the Authority is affected by the changes in both assets and liabilities and increased in the amount of $56,196.

This year's budget for capital expenditures was reached with the central air-conditioner upgrade completion; the replacement of several support and central office assets; the launch of the third telecenter at Enewetak Atoll; and the installation of the submarine fiber optical cable system, which increased the connectivity of the Marshall Islands to the world.

Statement of revenues, expenses, and changes in net assets:
Changes in total net assets as presented on the statement of net assets and stockholders' equity are based on the activity presented in the statement of revenues, expenses, and changes in net assets. The purpose of the statement is to present the revenues received by the Authority, both operating and nonoperating, and expenses paid by the Authority, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the Authority.

Generally speaking, operating revenues are received for providing telecommunications goods and services to various customers. Operating expenses are those expenses paid to acquire or produce the goods or services provided in return for the operating revenues, and to carry out the mission of the Authority. Nonoperating income is income received for which goods or services are not provided. For example, investment income is nonoperating because it is earned without providing telecommunications goods or services.

The statement of revenues, expenses, and changes in net assets reflects a decrease in net assets at the end of the year. Some highlights of the information presented on this statement are as follows:

Condensed statement of revenues, expenses, and changes in net assets	Year Ended September 30, 2010	2009	2008
Operating revenues	**$ 8,037,500**	$ 7,792,259	$ 7,842,588
Operating expenses	**8,130,111**	7,191,441	6,754,807
Operating (loss) income	**(92,611)**	600,818	1,087,781
Nonoperating income (expense)	**144,752**	228,464	(1,353,917)
CHANGE IN NET ASSETS	**$ 52,141**	$ 829,282	$ (266,136)

Overall operating revenues increased 3.1% with private line network and telephone equipment sales, wireless TV revenue, and long distance networks generating slight gains from prior year while local networks and internet usage revenue remain slightly lower than prior year. The shift from satellite to fiber cable private line access brought a positive revenue change due to increasing the capacity of services without correlating increases in service costs. In addition, dial-up services were moved to lower, flat rate costs.

Overall operating expenses increased 14.7% mainly in land and building expenses, depreciation and amortization costs, circuit rental expenses, wireless TV expenses, and general administrative expenses while marketing expenses, planning, and legal expenses decreased slightly. The fiber cable installation completion impacted all plant specific and nonspecific expenses for the last half of 2010.

Nonoperating income and expense decreased 36.6% due to increases in interest expense associated with the fiber optical cable project completed in 2010.

Statement of revenues, expenses, and changes in net assets (continued):
This year's actual operating revenue was moderately lower than budget with all revenue categories showing higher than budget results with the exception of local and long distance networks and wireless TV sales. Actual expenses were slightly lower than budget with the exception of circuit rental costs, general administrative costs, and land and building expenses. Nonoperating expenses were lower than budget due to investment income gains instead of anticipated losses. A capital contribution was budgeted and received this fiscal year.

Capital asset and debt administration:
Several construction projects and equipment purchases were completed this fiscal year as part of the Authority's maintenance and improvements program. Buildings, remote site facilities, wireless TV services, current cellular services, and the management network received upgrades and expansion through the year.

Debt payments made during the fiscal year continue to reduce the long-term debt in existence at the beginning of the year. The Authority acquired additional debt for the submarine fiber optical cable system with interest payments only for the first two years.

The replaced TDMA wireless system is considered a deferred asset for depreciation and financial reporting purposes as the expense associated with the system is expected to be recovered through rates in future years.

Economic outlook:
The Authority is aware of a national telecommunications policy developed by the National Government that may have a significant negative effect on its financial strength. Regulations and ownership discussions among the leaders has not produced any significant changes in policies, regulations, or industry management at this time.

The Authority has modern, state of the art equipment and tariff rates that we feel are very reasonable when compared with other telephone companies in the Pacific Region. Most of the modern telecommunications services provided in other more developed countries are available in the Marshall Islands.

The acquisition of the submarine fiber optical cable system, connectivity, and capacity will further assist the Republic of the Marshall Islands in its efforts to attract investors and further develop our island nation.

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

ASSETS

	September 30, 2010	September 30, 2009
CURRENT ASSETS		
Cash and cash equivalents	$ **1,190,104**	$ 930,408
Investments and deposits	**-**	1,293,271
Certificates of deposit	**626,548**	830,529
Telecommunications accounts receivable, less allowance for doubtful accounts of $412,276 and $377,276 in 2010 and 2009, respectively	**445,351**	415,661
Other accounts receivable	**297,712**	80,395
Accounts receivable, affiliates	**185,066**	266,080
Material and supplies	**325,098**	387,070
Total current assets	**3,069,879**	4,203,414
DEFERRED ASSETS, NET	**916,331**	958,209
PROPERTY, PLANT, AND EQUIPMENT		
Telecommunications plant in service	**65,201,698**	42,876,318
Wireless television plant in service	**1,308,646**	1,254,093
Telecommunications plant under construction	**114,089**	17,989,294
	66,624,433	62,119,705
Less accumulated depreciation	**30,512,498**	28,172,513
Total property, plant, and equipment, net	**36,111,935**	33,947,192
	$ **40,098,145**	$ 39,108,815

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

LIABILITIES AND NET ASSETS AND STOCKHOLDERS' EQUITY

	September 30, 2010	September 30, 2009
CURRENT LIABILITIES		
Accounts payable, general	$ **219,559**	$ 805,938
Accounts payable, affiliates	**164,544**	176,900
Current maturities of long-term debt	**942,911**	802,576
Advance billings and customer deposits	**298,433**	281,698
Other accrued liabilities	**98,266**	65,135
Total current liabilities	**1,723,713**	2,132,247
LONG-TERM DEBT	**29,108,041**	27,766,373
Total liabilities	**30,831,754**	29,898,620
NET ASSETS AND STOCKHOLDERS' EQUITY		
Invested in capital assets, net of related debt	**6,060,983**	5,378,243
Unrestricted:		
Common stock, $10 par value, 360,000 shares authorized; 316,613 and 316,330 shares issued; 267,145 and 266,862 shares outstanding at September 30, 2010 and 2009, respectively	**3,600,000**	3,600,000
Additional paid-in capital	**269,716**	265,661
Retained earnings (deficit)	**(169,628)**	460,971
	3,700,088	4,326,632
Treasury stock, at par value, 49,468 shares	**(494,680)**	(494,680)
	3,205,408	3,831,952
Total net assets	**9,266,391**	9,210,195
	$ **40,098,145**	$ 39,108,815

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Year Ended September 30,	
	2010	2009
Operating revenues		
Local network services	$ **1,142,487**	$ 1,170,265
Local cellular network services	**1,553,154**	1,329,039
Private line access	**1,949,168**	1,562,425
Wireless television services	**194,609**	132,247
Internet	**465,727**	667,886
Long distance network services	**2,746,476**	2,919,001
Miscellaneous	**(14,121)**	11,396
Total operating revenue	**8,037,500**	7,792,259
Operating expenses		
Plant specific operations	**2,633,204**	2,101,167
Plant nonspecific operations	**1,341,919**	1,323,278
Depreciation and amortization	**2,312,739**	2,047,661
Corporate operations	**1,066,986**	947,819
Customer operations	**775,263**	771,516
Total operating expenses	**8,130,111**	7,191,441
Operating income (loss)	**(92,611)**	600,818
Nonoperating income (expense)		
Investment gain (loss)	**67,330**	(129,930)
Grant from governmental agency	**1,040,250**	1,000,000
Interest expense, net of allowance for funds used during construction	**(962,828)**	(641,606)
Total nonoperating income	**144,752**	228,464
CHANGE IN NET ASSETS	$ **52,141**	$ 829,282

See accompanying notes.

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)
STATEMENT OF NET ASSETS AND STOCKHOLDERS' EQUITY

	Invested in Capital Assets, net of related debt	Unrestricted Net Assets				
		Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance, September 30, 2008	$ 4,883,215	$ 3,600,000	$ (494,680)	$ 262,751	$ 126,717	$ 8,378,003
Sale of 195 shares of common stock for cash, less stock subscriptions receivable and par value due to RepMar	-	-	-	2,910	-	2,910
2009 change in invested in capital assets, net of related debt	495,028	-	-	-	(495,028)	-
Change in net assets	-	-	-	-	829,282	829,282
Balance, September 30, 2009	5,378,243	3,600,000	(494,680)	265,661	460,971	9,210,195
Sale of 283 shares of common stock for cash, less stock subscriptions receivable and par value due to RepMar	-	-	-	4,055	-	4,055
2010 change in invested in capital assets, net of related debt	682,740	-	-	-	(682,740)	-
Change in net assets	-	-	-	-	52,141	52,141
Balance, September 30, 2010	$ 6,060,983	$ 3,600,000	$ (494,680)	$ 269,716	$ (169,628)	$ 9,266,391

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

	Year Ended September 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from subscribers, long distance carriers, and other customers	$ 6,450,962	$ 6,526,024
Cash received from affiliates	1,437,280	1,279,949
Cash paid to suppliers and employees	(4,974,065)	(3,817,538)
Cash paid to affiliates	(1,346,939)	(1,340,058)
Net cash from operating activities	1,567,238	2,648,377
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from the issuance of common stock	4,055	2,910
Net cash from noncapital financing activities	4,055	2,910
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to property, plant, and equipment	(3,970,135)	(18,539,471)
Principal payments	(802,983)	(861,747)
Proceeds from long-term debt	2,284,986	16,181,681
Interest paid on long-term debt	(1,428,297)	(922,968)
Grant proceeds received for construction and acquisition of plant	1,040,250	1,000,000
Net cash from capital and related financing activities	(2,876,179)	(3,142,505)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(294,838)	(1,533,143)
Sales and maturities of investments	1,588,109	2,145,707
Purchases of certificates of deposit	(500,000)	(150,000)
Sales and maturities of certificates of deposit	703,981	354,357
Interest and dividends received	67,330	133,402
Net cash from investing activities	1,564,582	950,323
CHANGE IN CASH AND EQUIVALENTS	259,696	459,105
Cash and cash equivalents, at beginning of year	930,408	471,303
Cash and cash equivalents, at end of year	$ 1,190,104	$ 930,408

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPULBIC OF THE MARSHALL ISLANDS)
STATEMENT OF CASH FLOWS

	Year Ended September 30, 2010	Year Ended September 30, 2009
Operating income (loss)	$ (92,611)	$ 600,818
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation and amorization	2,312,739	2,047,661
Changes in assets and liabilities:		
Accounts receivables	(165,993)	(5,895)
Material and supplies	61,972	(172,990)
Accounts payable and accrued expenses	(565,604)	159,174
Advance billing and customer deposits	16,735	19,609
NET CASH FROM OPERATING ACTIVITIES	$ 1,567,238	$ 2,648,377
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITY		
Allowance for funds used during construction	$ 465,469	$ 281,362
Net increase in fair value of investments	$ -	$ 172,899
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITY		
Refinance of long-term debt	$ -	$ 2,047,647

See accompanying notes.

Note 1 - Significant Accounting Policies

Nature of operations:
Marshall Islands National Telecommunications Authority (NTA or the Authority), a component unit of the Republic of the Marshall Islands, is a local exchange carrier (LEC) and an international exchange carrier providing local telephone service, cellular service, Internet access, wireless television, and long distance telecommunications services. NTA serves commercial and residential customers in the Marshall Islands.

Organization:
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 Republic of the Marshall Islands were administered under the Ministry of Transportation and Communications of the Government of the Republic of the Marshall Islands (RepMar).

On October 9, 1990, Public Law 1990-105 was passed, which changed the name of the Authority to the Marshall Islands National Telecommunications Authority and also established NTA as a corporation. An appraisal of NTA's property acquired as of April 27, 1987, was conducted, and in accordance with Public Law 1990-105, the appraised amount constituted the aggregate par value of the authorized capital stock of NTA. Pursuant to the results of the appraisal, as of December 20, 1990, the Board of Directors of NTA determined the initial capital of NTA to be $3,600,000.

Of the initial capital, stock of $900,000 (90,000 shares of $10 par value common stock) was issued to RepMar on December 2, 1991. The remaining 270,000 shares of common stock were considered to be unissued capital stock owned by RepMar because RepMar had full voting rights and dividend rights on the unissued shares until they were 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.

On September 27, 2001, the cabinet of RepMar authorized NTA to reacquire 60,000 shares of common stock from RepMar as treasury stock. The transaction represented a reimbursement of $600,000 for outstanding and uncollected telecommunications accounts receivable and notes receivable that were initially transferred to NTA shortly after its formation in 1987. Pursuant to Public Law 1990-105, RepMar only has dividend and voting rights on the shares of initially authorized stock remaining unsold to the public. Therefore, NTA is of the opinion that RepMar no longer has voting rights or dividend rights over the shares held as treasury stock. Furthermore, NTA is no longer required to pay RepMar $10 per share upon their reissuance.

Note 1 - Significant Accounting Policies (Continued)

Organization (continued):
Effective August 20, 2002, RepMar contracted to purchase 29,167 treasury shares from NTA for $350,000. As of September 30, 2002, the shares were not fully paid for and were recorded as subscribed treasury stock; the shares were issued in 2003. On March 8, 2006, 38,635 shares of common stock owned by RepMar were reacquired by NTA into treasury stock to offset RepMar receivables of $386,350. On February 28, 2008, Bank of Marshall Islands purchased 20,000 treasury shares from NTA for $240,000.

The Republic of the Marshall Islands owns a voting majority of NTA stock and has unconditionally guaranteed the majority of NTA's Rural Utilities Service (RUS) debt. NTA is considered a component unit of the Republic of the Marshall Islands.

Accounting policies:
The financial statements of NTA have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to regulated public utilities and governmental entities, specifically proprietary funds. NTA has implemented Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, which requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. NTA has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Basis of accounting:
In accordance with GASB Statement No. 20, *Accounting and Financial Reporting/or Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* the Authority implemented all applicable GASB pronouncements as well as Statements and Interpretations issued by the FASB, Accounting Principle Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989.

The Authority 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 GAAP. Additionally, the Authority utilizes the accrual basis of accounting, including the application of regulatory accounting as it relates to the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process.

Note 1 - Significant Accounting Policies (Continued)

Basis of accounting (continued):
The Authority's net assets are classified as follows:

- Invested in capital assets, net of related debt:

  Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

- Restricted:

  - Nonexpendable - Net assets subject to externally imposed stipulations that require the Authority to maintain them permanently.

  - Expendable - Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time.

  The Authority has no restricted net assets at September 30, 2010 and 2009.

- Unrestricted:

  Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Cash and cash equivalents:
Cash and cash equivalents are defined as short-term, highly liquid investments that were purchased with an original maturity of three months or less and are readily convertible into cash. Cash equivalents are stated at cost and primarily consist of cash held in demand deposits.

Investments and deposits:
Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Accounts receivable:
Telecommunications accounts receivable are due from businesses and individuals located within and outside of the Republic of the Marshall Islands and are interest free and uncollateralized. International carrier receivables are due from entities within the United States, Japan, Fiji, Australia, and New Zealand, are included in other accounts receivable, and are also uncollateralized.

Note 1 - Significant Accounting Policies (Continued)

Accounts receivable (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 efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Material and supplies:
Material and supplies are valued at cost, which approximates market, using the first-in, first-out (FIFO) method.

Property, plant, and equipment:
Property, plant, and equipment are stated at cost. The Authority follows the capitalization policy prescribed by the Federal Communications Commission (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 price.

Property, plant, and equipment are depreciated using the straight-line method based on the estimated useful lives of the respective assets.

Allowance for funds used during construction (AFUDC):
NTA records as income and capitalizes as a cost of construction the cost of financing large construction projects spanning a period greater than two months. NTA uses a weighted-average interest based on total long-term debt. There was AFUDC of $465,469 and $281,361 recorded for the years ended September 30, 2010 and 2009, respectively.

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 the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At September 30, 2010 and 2009, no assets had been written down.

Note 1 - Significant Accounting Policies (Continued)

Deferred assets:
The Authority is regulated by the Cabinet of RepMar and, as a result, is subject to the provisions of regulatory accounting. Under the regulatory accounting provision, regulatory assets are deferred expenses that are expected to be recovered through customer rates over some future period. At September 30, 2010 and 2009, these deferred charges consist of a TDMA mobile system, which was removed from service in November 2005. The cabinet of RepMar approved the deferral of the write-off and allowed the asset to be amortized over ten additional years. During the years ended September 30, 2010 and 2009, amortization expense relating to this asset was $41,878 and $162,503, respectively. During 2010, management determined that incorrect amortization rates were applied to the regulatory assets. Accordingly, an adjustment was made in 2010 to reverse previously overstated amortization of $115,619 to accurately reflect the remaining life of the assets at September 30, 2010. The magnitude of the adjustment did not require adjusting prior period.

As of September 30, 2010 and 2009, the net book value relating to deferred assets amounted to $916,331 and $958,209, respectively.

Income 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 telecommunication 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 telecommunication services.

Revenue recognition and classification:
Billings for local service revenue, basic monthly Internet service, and wireless television services are rendered monthly in advance. Advance billings are recorded as a liability and subsequently transferred to income in the period earned.

Wireless subscriber revenues are based on per minute charges prepaid by the subscriber. The revenues are recognized at the time of prepayment.

Long distance network services revenues and usage-sensitive Internet service 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.

NTA records all revenue generated from providing telecommunications services as operating revenue, including local service, long distance, Internet, wireless television, and cellular services.

Nonoperating income and expenses consist of income from investments, interest paid on notes, and grant funds received.

Regulatory authority:
The regulatory authority of NTA is the cabinet of RepMar, which imposes stipulations on rates for telephone services as defined in Public Law 1990-105.

Note 1 - Significant Accounting Policies (Continued)

Concentration of credit risk:
At various times throughout the year, cash balances exceed federally insured limits in individual financial institutions. NTA has not experienced any losses in such accounts.

Accounting estimates:
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include depreciation expense.

Note 2 - Deposits and Investments

GASB No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB No. 40 also requires disclosure of formal policies related to deposit and investment risks.

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, the Authority can invest in bonds and other indebtedness of the United States (US) and in preferred or common stock of any corporation created or existing under the laws of the US or any US state, territory, or commonwealth. Additionally, a maximum of 25% of the total portfolio may be invested in non-US equities.

As of September 30, 2010 and 2009, the carrying amount of NTA's total cash and cash equivalents and time certificates of deposit were $1,816,652 and $1,760,937, respectively, and the corresponding bank balances were $1,829,004 and $1,757,429, respectively. Of the bank balance amounts, $1,119,738 and $834,569, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010 and 2009, bank deposits in the amount of $250,000 were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk. NTA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. NTA has not experienced any losses in such accounts.

Investments and deposits:
Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in US government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with NTA's investment policy.

Note 2 - Deposits and Investments (Continued)

Investments and deposits (continued):
Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, NTA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of September 30, 2010 and 2009, NTA's investments are held in the name of NTA and are administered by investment managers subject to Securities Investor Protection Corporation insurance in accordance with NTA's investment policy.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. NTA's investment policy limits investment maturities to one year to manage its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for NTA. As of September 30, 2010 and 2009, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2010 and 2009, investments at fair value are as follows:

	2010	2009
Other investments:		
Stocks	$ -	$ 1,237,197
Money market funds	-	56,074
	$ -	$ 1,293,271

Note 3 - Property, Plant, and Equipment

Capital asset activities for the years ended September 30, 2010 and 2009, are as follows:

	Depreciable Life	Balance October 1, 2009	Additions	Transfers	Retirements	Balance September 30, 2010
General support assets	5 - 40 years	$ 10,208,111	$ 120,999	$ 236,531	$ -	$ 10,565,641
Central office assets	5 - 20 years	17,453,342	185,386	-	-	17,638,728
Cable and wire facilities assets	20 - 25 years	10,279,491	206,208	21,390,275	-	31,875,974
Wireless phone assets	15 years	4,935,374	185,981	-	-	5,121,355
Wireless television assets	5 - 10 years	1,254,093	54,553	-	-	1,308,646
		44,130,411	753,127	21,626,806	-	66,510,344
Plant under construction	n/a	17,989,294	3,751,601	(21,626,806)	-	114,089
		62,119,705	4,504,728	-	-	66,624,433
Less accumulated depreciation		(28,172,513)	(2,339,985)	-	-	(30,512,498)
		$ 33,947,192	$ 2,164,743	$ -	$ -	$ 36,111,935

	Depreciable Life	Balance October 1, 2008	Additions	Transfers	Retirements	Balance September 30, 2009
General support assets	5 - 40 years	$ 10,316,893	$ 401,312	$ -	$ (510,094)	$ 10,208,111
Central office assets	5 - 20 years	17,426,606	212,381	-	(185,645)	17,453,342
Cable and wire facilities assets	20 - 25 years	10,160,745	118,746	-	-	10,279,491
Wireless phone assets	15 years	4,625,295	380,163	-	(70,084)	4,935,374
Wireless television assets	5 - 10 years	-	1,254,093	-	-	1,254,093
		42,529,539	2,366,695	-	(765,823)	44,130,411
Plant under construction	n/a	1,535,156	16,454,138	-	-	17,989,294
		44,064,695	18,820,833	-	(765,823)	62,119,705
Less accumulated depreciation		(27,053,178)	(1,885,158)	-	765,823	(28,172,513)
		$ 17,011,517	$ 16,935,675	$ -	$ -	$ 33,947,192

Note 4 - Long-Term Debt

Long-term debt is as follows at September 30:

	Interest Rate	Maturity Dates	2010	2009
Rural Utilities Service, fixed	5.00%	2011 - 2031	**$ 25,923,952**	$ 24,441,949
Rural Utilities Service, variable	3.63%-3.84%	2031	**4,127,000**	4,127,000
			30,050,952	28,568,949
Less current maturities			**(942,911)**	(802,576)
			$ 29,108,041	$ 27,766,373

Substantially all assets of NTA, including specific NTA ground leases, are pledged to secure the Rural Utilities Service (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. Of these additional funds, approximately $18,500,000 and $16,200,000 were drawn down as of September 30, 2010 and 2009, respectively. RepMar has guaranteed $1,500,000 of the additional funding.

The terms of the mortgage agreements contain provisions and restrictions pertaining to, among other things, the distribution of dividends and the times interest earned ratio.

At September 30, 2010, NTA had unadvanced funds from RUS in the amount of $59,332.

Note 4 - Long-Term Debt (Continued)

Annual requirements to retire the long-term debt obligations are as follows:

	2010	
	Principal	Interest
2011	$ 942,911	$ 1,559,866
2012	1,171,137	1,375,852
2013	1,229,056	1,317,934
2014	1,289,862	1,257,127
2015	1,353,703	1,193,286
2016-2020	7,843,401	4,891,546
2021-2025	9,398,139	2,749,965
2026-2030	6,394,710	879,839
2031	428,033	3,903
	$ 30,050,952	$ 15,229,318

A summary of changes in long-term obligations is as follows:

	Balance at September 30, 2009	**Additons**	**Reductions**	**Balance at September 30, 2010**	**Amount Due in One Year**
RUS	**$ 28,568,949**	**$ 2,284,986**	**$ (802,983)**	**$ 30,050,952**	**$ 942,911**

	Balance at September 30, 2008	Additons	Reductions	Balance at September 30, 2009	Amount Due in One Year
RUS	$ 13,249,015	$ 16,181,681	$ (861,747)	$ 28,568,949	$ 802,576

Note 5 - Deferred Compensation

On October 1, 1995, NTA implemented a Deferred Compensation Plan (the Plan) for its employees. The purpose of the Plan is intended to advance the interests of NTA by providing retirement income benefits thereby attracting and retaining valuable employees. All employees are eligible upon permanent employment with NTA. Employees may defer certain amounts of their compensation, which is then paid to the Plan. NTA will match 100% of a participant's elective deferral up to 5% of the participant's base salary for the Plan year subject to deduction for taxes. During 2003, the Plan's assets were transferred into a separate trust account, which NTA administers. Plan administrators include the president of NTA and two members of the Board of Directors. The Plan administrators have the authority to revise or set Plan provisions. The Plan's assets are held by ASC Trust Corporation. NTA contributed $55,026 and $50,909 for the years ended September 30, 2010 and 2009, respectively.

Note 6 - Related Party Transactions

NTA is affiliated with various entities through common ownership by RepMar. NTA's telecommunication services are provided to its affiliates at the same rates and conditions afforded to third parties. Services include switching local and long distance calls and providing Internet access. Expenses incurred by NTA consist primarily of utilities and various taxes. Related party transactions for the years ended September 30 were as follows:

	2010	2009
Revenues		
Air Marshall Islands, Inc.	$ 51,920	$ 56,445
Marshall Islands Social Security Administration	29,615	37,077
Marshalls Energy Company, Inc.	67,188	66,820
Majuro Resort, Inc.	69,041	96,606
Bank of Marshall Islands	140,650	118,349
RepMar and other	1,035,615	980,969
	$ 1,394,029	$ 1,356,266
Expenses		
Air Marshall Islands, Inc.	$ 5,063	$ 4,785
Marshall Islands Social Security Administration	373,617	347,148
Marshalls Energy Company, Inc.	658,574	524,201
RepMar and other	719,251	458,449
	$ 1,756,505	$ 1,334,583

Note 6 - Related Party Transactions (Continued)

	2010	2009
Current receivables		
Air Marshall Islands, Inc.	$ 7,229	$ 8,313
Marshall Islands Social Security Administration	1,974	2,964
Marshalls Energy Company, Inc.	10,331	9,833
Majuro Resort, Inc.	7,253	13,041
Bank of Marshall Islands	14,956	12,936
RepMar and other	143,323	218,993
	$ 185,066	$ 266,080
Current payables		
Marshall Islands Social Security Administration	$ 85,782	$ 85,141
Marshalls Energy Company, Inc.	45,465	43,653
RepMar and other	33,297	48,106
	$ 164,544	$ 176,900

NTA has uninsured deposit accounts with a financial institution, related through common ownership, of $709,265 and $772,859, as of September 30, 2010 and 2009, respectively.

Note 7 - Lease Agreements

NTA has long-term commitments for several ground leases and satellite circuit leases. Leases are both cancelable and noncancelable operating leases, expiring from 2011 to 2030.

The following is a schedule by years of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2010:

2011	$ 850,836
2012	506,781
2013	506,781
2014	499,704
2015	493,128
2016-2020	40,019
2021-2025	34,930
2026-2030	14,574
	$ 2,946,753

Note 7 - Lease Agreements (Continued)

Total lease payments under the above operating leases for the years ended September 30, 2010 and 2009, were approximately $905,581 and $1,135,191, respectively.

Note 8 - Risks and Contingencies

In the normal course of business, NTA is involved in various claims and litigation. In the opinion of management, the disposition of these matters is not expected to have a material adverse effect on NTA's financial position or results of operations.

NTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which NTA carries commercial insurance. There have been no significant reductions in coverage, and there have been no settlements in excess of insurance coverage for the past three years.

Note 9 - Commitments

NTA executed a contract for certain construction projects during 2010. The Authority had no unpaid obligations against this commitment at September 30, 2010. The remaining amount of the Authority's commitment under this contract was $443,625 at December 31, 2010, which represents future construction work to be provided.

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INDEPENDENT AUDITOR'S 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
Majuro, Republic of the Marshall Islands

We have audited the financial statements of Marshall Islands National Telecommunications Authority (NTA), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2010, and have issued our report thereon dated December 13, 2010. We conducted our audit 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.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Marshall Islands National Telecommunications Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NTA's internal control over financial reporting.

A deficiency in internal controls 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 combination of the entity's deficiencies in internal control such that there is a reasonable possibility that a material misstatement of financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Marshall Islands National Telecommunications Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of NTA in a separate letter dated December 13, 2010.

This report is intended solely for the information and use of the Audit Committee, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be, and should not be used by anyone other than these specified parties.

Moss Adams LLP

Spokane, Washington
December 13, 2010

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INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Board of Directors
Marshall Islands National Telecommunications Authority
Majuro, Republic of the Marshall Islands

We have audited the financial statements of Marshall Islands National Telecommunications Authority (NTA or the Authority), a component unit of the Republic of the Marshall Islands, for the year ended September 30, 2010, and have issued our report thereon dated December 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR 1773, *Policy on Audits of Rural Utilities Service (RUS) Borrowers*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NTA's internal control over financial reporting.

A deficiency in internal controls 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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses as defined above. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR 1773.33(e)(2) and related party transactions and investments. In addition, our audit of the financial statements also included the procedures specified in 7 CFR 1773.38-.45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditor's report, and our independent auditor's 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*, all dated December 13, 2010) or summary of recommendations (other than the audit fieldwork exit conference) related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding Marshall Islands National Telecommunications Authority's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- the accounting procedures and records;
- the process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts; and
- the materials control.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts, and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement, or lease between the borrower and an affiliate for the year ended September 30, 2010, of Marshall Islands National Telecommunications Authority:

  - Obtained and read a borrower-prepared schedule of new written contracts, agreements, or leases between the borrower and an affiliate as defined in §1773.33(e)(2)(i).

  - Reviewed Board of Directors' minutes to ascertain whether Board-approved written contracts are included in the borrower-prepared schedule.

  - Noted the existence of written RUS approval of each contract listed by the borrower.

- Procedure performed with respect to the requirement to submit *Operating Report for Telecommunications Borrowers* to RUS:

  - We noted discrepancies between NTA's December 31, 2009, accounting records and the amounts reported on the *Operating Report for Telecommunications Borrowers* to RUS.

The results of our tests indicate that, with respect to the items tested, Marshall Islands National Telecommunications Authority complied, in all material respects, with the specific RUS loan and security instruments provisions referred to below. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has obtained written approval of the RUS to enter into any contract, agreement, or lease with an affiliate as defined in §1773.33(e)(2)(i); and

- The borrower has submitted its *Operating Report for Telecommunications Borrowers* to RUS and the operating report for telecommunications borrowers, as of December 31, 2009, represented by the borrower as having been submitted to RUS is not in agreement with NTA's unaudited records as of the date.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements .of Marshall Islands National Telecommunications Authority, nothing came to our attention that caused us to believe the Authority failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33(c)(1);
- The clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- The approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR 1773.33(c)(5); and
- The disclosure of material related party transactions for the year ended September 30, 2010, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33(e).

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments in affiliated companies required by 7 CFR 1773.33(i) is not included because NTA had no investments in affiliated companies as of September 30, 2010.

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.

MOSS ADAMS LLP

Moss Adams LLP

Spokane, Washington
December 13, 2010