Report of Independent Auditors
and Financial Statements

Marshall Islands National Telecommunications Authority

September 30, 2012 and 2011

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Marshall Islands National Telecommunications Authority

We have audited the accompanying statements of net assets of Marshall Islands National Telecommunications Authority (Company), a component unit of the Republic of the Marshall Islands, as of September 30, 2012 and 2011, 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 Company'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, 2012 and 2011, 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.

REPORT OF INDEPENDENT AUDITORS
(continued)

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 10 to the financial statements, the Company has suffered recurring losses from operations. The Company is in default on its loan agreements and has failed to make scheduled principal and interest payments during 2012 and 2013. The Company is not aware of any alternate sources of capital to meet its obligations. Those factors raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of the uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2013, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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.

Moss Adams LLP

Spokane, Washington
May 20, 2013

INTRODUCTION

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

Overview of the Financial Statements and Financial Analysis

The Marshall Islands National Telecommunications Authority (the Company or NTA) is pleased to present its financial statements for fiscal year 2012 with fiscal years 2010 and 2011 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 Company. The statement of net assets presents end of year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). Significant statement of net assets items are discussed in the footnotes to the financial statements.

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

Statements of Net Assets (continued)

The total assets of the Company decreased $1,575,734 from fiscal year 2011. The primary cause for the decrease is the increase in accumulated depreciation of approximately $2,610,000 under property, plant, and equipment. Net current assets decreased by $53,297. Small increases in cash, certificates of deposit and net accounts receivable were offset by a decrease in materials and supplies of $45,428. This amount was offset by the increase in telecommunications plant in service of approximately $1,087,000. In August 2011, the Company kicked off its Demand Assigned Multiple Access (DAMA) project by installing Tele-Centers on four outer island atolls. The Company completed work on seven additional DAMA sites during the year.

During 2010 and 2011, the Company experienced issues with its billing system, which caused a significant increase in both the gross accounts receivable account and the allowance for doubtful accounts and slowed collections from its customers. Collections have improved in 2012. Deferred assets were fully retired, and selected property, plant, and equipment were retired, generating a significant decrease in assets.

Net current liabilities, other than principal portions of long-term debt, increased $316,509. This was composed of the accrued liability of $111,012 for the interest due on the September RUS loan payment which was paid in October 2012, and increases in accounts payable for asset purchases and routine expenses which were paid in the normal course of business in FY 2013.

The total liabilities of the Company decreased $751,327 from fiscal year 2011. A review of the statement of net assets will reveal that current liabilities increased by approximately $28,151,000, due to long-term debts of approximately $29,102,000 being reclassified as current, due to loans being in default. As of the report date subsequent to year end, the Company has not made three required monthly loan payments on its Rural Utility Services loan totaling $636,908. The Company is required to maintain a minimum times interest earned ratio and as of September 30, 2012 and 2011, was in violation of this covenant. Additionally, the Company did not make its $100,000 annual payment to the Republic of the Marshall Islands for the $1 million loan received during 2011.

Statements of Net Assets (continued)

The total net assets of the Company are affected by the changes in both assets and liabilities resulting in a net decrease amount of $824,407.

Condensed Statements of Net Assets	2012	2011	2010
Assets			
Current assets	$ 2,634,769	$ 2,688,066	$ 3,069,879
Plant assets, net	33,369,673	34,892,110	36,111,935
Other noncurrent assets	-	-	916,331
Total assets	$ 36,004,442	$ 37,580,176	$ 40,098,145
Liabilities			
Current liabilities	$ 30,308,595	$ 2,157,365	$ 1,723,713
Noncurrent liabilities	-	28,902,557	29,108,041
Total liabilities	30,308,595	31,059,922	30,831,754
Invested in capital assets, net of related debt	4,267,515	4,722,116	6,060,983
Unrestricted net assets	1,428,332	1,798,138	3,205,408
Total net assets and stockholders' equity	5,695,847	6,520,254	9,266,391
Total liabilities and net assets and stockholders' equity	$ 36,004,442	$ 37,580,176	$ 40,098,145

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 Company, both operating and nonoperating, and expenses paid by the Company, operating and nonoperating, any other revenues, expenses, gains, and losses received or spent by the Company.

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 Company. Nonoperating revenues are revenues 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.

Statement of Revenues, Expenses, and Changes in Net Assets (continued)

The statement of revenues and expenses reflects another negative year in 2012, similar to 2011, with a decrease in net assets at the end of the year. Some highlights of the information presented on the statement of revenues, expenses, and change in net assets are as follows:

Condensed statement of revenues, expenses, and changes in net assets	Years Ended September 30, 2012	2011	2010
Operating revenues	$ 7,959,960	$ 7,737,809	$ 8,037,500
Operating expenses	8,088,088	8,267,607	8,130,111
Operating loss	(128,128)	(529,798)	(92,611)
Nonoperating income (expense)	(698,799)	(2,218,314)	144,752
Change in net assets	$ (826,927)	$ (2,748,112)	$ 52,141

Over a period of several years, NTA has upgraded existing services and introduced entirely new services. The introduction of modern Internet services made possible by the fiber optic cable has provided businesses and residential customers with unprecedented access. But, these new services have come at the expense of revenue from local and long distance network services, which have been replaced. In round numbers, for ease of comparison, NTA's net revenues from FY 2008 to FY 2012 during this period of modernization have remained flat, at $7.8M, $7.8M, $7.7M, $8.0M, $7.7M and $8.0M, respectively. Basic local network revenues have remained much the same, from $1.1M in 2008 to $1.0M in 2012. During this period, traditional long distance revenues have plummeted, from $3.4M in 2008 to just $2.2M in 2012 as customers have switched to e-mail and Internet VoIP voice services such as Skype made possible by the cable. Private line access revenue, which includes the Internet line revenues, increased over this period from $1.3M to $2.5M due to cable access. Cellular revenues have increased from $1.1M in 2008 to $2.0M in 2011, but remained flat in 2012 at $2.0M despite additional cellular customers due to customers using VoIP voice services more regularly. NTA has strived to maintain low rates by regional standards, and the result has been similar total revenues over these years despite the changes in individual revenues as technology changes the way our customers use telecommunications services.

Statement of Revenues, Expenses, and Changes in Net Assets (continued)

Total operating expenses decreased in FY 2012 from FY 2011 by approximately $179,000. Expenses for total plant specific operations as presented decreased by $11,000, but in FY 2012 expenses totaling $148,000 previously recorded to plant specific operations have been recorded as expenses of corporate operations in the current year, which accounts for most of the increase in corporate operations, plus increased costs of travel and training. In the plant specific expenses, land and building expenses and vehicle expenses increased $127,000 over the prior year. Expenses for plant nonspecific operations decreased $137,000 primarily due to decreased circuit rental costs of $78,000 and decreased shipping and general supplies costs of $50,000.

Customer operations decreased $23,000 as staff hours were reduced.

Depreciation expense in 2012 decreased $205,000 as older assets became fully depreciated.

Nonoperating revenue and expense decreased significantly in 2012. NTA received a $619,000 grant from the Republic of the Marshall Islands in 2012, which was a payment on behalf of NTA for defaulted RUS loan payments. Whereas during 2011, there was an early retirement of the deferred cellular assets, which resulted in a loss on disposal of approximately $800,000, and increases in loan interest expenses for the fiber optical cable.

Capital Asset and Debt Administration

In FY 2012, the Company completed upgrades to its GSM cellular system to improve local service for a cost of $385,000.

Also at the end of 2011 and throughout 2012, NTA completed the hub and eleven of twenty-five outer islands sites for its aforementioned DAMA system that brings modern telecommunications to outer islands that generally do not even have electricity. Outer Island dispensaries, schools, and the general public will have access to the world via these sites. The remaining sites will be completed in FY 2013. NTA has invested $600,000 in this project through September 30, 2012.

Capital Asset and Debt Administration (continued)

Additionally, the Company is in the process of implementing modern billing software to replace the interim software that was temporarily placed into service when the previous system crashed in October 2011.

NTA operates in a technology and capital intensive industry and must continually upgrade and replace equipment to meet international telecommunications standards.

Long Term Debt and Liquidity And Capital Resources

In FY 2009, the Company entered into an $18,500,000 loan to finance part of the $22,400,000 investment in the fiber optic cable project linking Kwajalein and Majuro to Guam. The small domestic market does not provide enough revenue opportunities to service this amount of debt, and NTA has been reliant upon government subsidies to meet its debt obligations. As seen in the financial statements, the Company did not receive any subsidies in FY 2011, and in April 2012 was forced to default on the loan payments. The government of the RMI as guarantor was required to make payments on behalf of the Company for April, May, and most of June. These payments totaling $619,000 are reflected in the financial statements as a grant in FY 2012. Additionally, as of the report date, a portion of the loan payment due in April remains unpaid. As loans are currently in default, approximately $28,102,000 has been reclassified as current liabilities in the 2012 financials presented. For the foreseeable future the Company will be reliant upon such grants to assist in servicing the debt.

In FY 2011, the Company entered into a $1,000,000 loan agreement with the RMI to be paid in 10 annual installments of $100,000. The Company was unable to meet its FY 2012 payment, as such this entire loan has been classified as a current liability in the 2012 financials.

NTA does not have any available sources of credit. The Company has outstanding loans as discussed above, and is precluded from acquiring additional debt by the terms of the Rural Utilities Service loan.

Economic Outlook

Legislation has been proposed to open the telecommunications market of the Republic of the Marshall Islands to competition. It is the opinion of Management that this could have a significantly adverse effect on the financial condition of the Company in such a small market. NTA has modern equipment and tariffs that we feel are very reasonable when compared to other telecommunications companies in the Pacific region and considering the cost of providing such services. The Company has strived to keep rates affordable to our customers and to thus stimulate usage but sales have been flat and the Company has recorded operating losses in the last three years.

Economic Outlook (continued)

The RMI is also in the process of revising the national and local tax structures. Under the tax legislation as proposed, the Company will be subject to corporate income tax, although currently exempt from the gross revenue tax. This will require an increase to rates accordingly, which may have the effect of decreasing customer usage and our net revenue.

Additionally, the new tax structure will implement Value Added Tax (VAT) for the first time in the Republic, and the legislation as proposed will require NTA to assess VAT on its customers although other utilities would be exempted. The Company believes this additional tax burden to our customers will decrease customer usage and revenue.

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

ASSETS

	September 30, 2012	September 30, 2011
CURRENT ASSETS		
Cash and cash equivalents	$ 701,105	$ 692,277
Certificates of deposit	372,485	351,401
Telecommunications accounts receivable, less allowance for doubtful accounts of $333,841 and $903,535 in 2012 and 2011, respectively	564,713	645,823
Other accounts receivable	398,316	316,175
Accounts receivable, affiliates	375,681	414,493
Material and supplies	222,469	267,897
Total current assets	2,634,769	2,688,066
PROPERTY, PLANT, AND EQUIPMENT		
Telecommunications plant in service	62,791,072	61,257,981
Wireless television plant in service	1,418,428	1,369,201
Telecommunications plant under construction	385,722	880,321
	64,595,222	63,507,503
Less accumulated depreciation	31,225,549	28,615,393
Total property, plant, and equipment, net	33,369,673	34,892,110
	$ 36,004,442	$ 37,580,176

LIABILITIES AND NET ASSETS AND STOCKHOLDERS' EQUITY

	September 30, 2012	September 30, 2011
CURRENT LIABILITIES		
Accounts payable, general	$ 443,321	$ 238,206
Accounts payable, affiliates	258,294	252,497
Current maturities of long-term debt	29,102,158	1,267,437
Customer deposits	300,769	297,666
Other accrued liabilities	204,053	101,559
Total current liabilities	30,308,595	2,157,365
LONG-TERM DEBT, net of current portion	-	28,902,557
Total liabilities	30,308,595	31,059,922
NET ASSETS AND STOCKHOLDERS' EQUITY		
Invested in capital assets, net of related debt	4,267,515	4,722,116
Unrestricted		
Common stock, $10 par value, 360,000 shares authorized; 316,872 and 316,726 shares issued; 267,404 and 267,258 shares outstanding at September 30, 2012 and 2011, respectively	3,600,000	3,600,000
Additional paid-in capital	274,211	271,691
Retained deficit	(1,951,199)	(1,578,873)
	1,923,012	2,292,818
Treasury stock, at par value, 49,468 shares	(494,680)	(494,680)
	1,428,332	1,798,138
Total net assets	5,695,847	6,520,254
	$ 36,004,442	$ 37,580,176

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

	Years Ended September 30,	
	2012	2011
Operating revenues		
Local network services	$ 984,317	$ 1,098,538
Local cellular network services	2,014,680	2,002,992
Private line access	2,510,003	2,450,902
Wireless television services	238,570	314,889
Internet	68,379	114,705
Long distance network services	2,170,355	2,361,423
Miscellaneous	(26,344)	(605,640)
Total operating revenue	7,959,960	7,737,809
Operating expenses		
Plant specific operations	2,822,370	2,832,877
Plant nonspecific operations	1,094,328	1,231,391
Depreciation and amortization	2,613,844	2,818,842
Corporate operations	803,384	607,705
Customer operations	754,162	776,792
Total operating expenses	8,088,088	8,267,607
Operating loss	(128,128)	(529,798)
Nonoperating income (expense)		
Interest and dividends	22,043	16,006
Gain (loss) on disposal of assets	1,000	(803,155)
Grant from governmental agency	619,000	-
Interest expense, net of allowance for funds used during construction	(1,340,842)	(1,431,165)
Total nonoperating loss	(698,799)	(2,218,314)
Change in net assets	$ (826,927)	$ (2,748,112)

See accompanying notes.

STATEMENTS 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 (Deficit)	Total
Balance, September 30, 2010	$ 6,060,983	$ 3,600,000	$ (494,680)	$ 269,716	$ (169,628)	$ 9,266,391
Sale of 96 shares of common stock for cash, less stock subscriptions receivable and par value due to RepMar	-	-	-	1,975	-	1,975
2011 change in invested in capital assets, net of related debt	(1,338,867)	-	-	-	1,338,867	-
Change in unrestricted net assets	-	-	-	-	(2,748,112)	(2,748,112)
Balance, September 30, 2011	4,722,116	3,600,000	(494,680)	271,691	(1,578,873)	6,520,254
Sale of 146 shares of common stock for cash, less stock subscriptions receivable and par value due to RepMar	-	-	-	2,520	-	2,520
2012 change in invested in capital assets, net of related debt	(454,601)	-	-	-	454,601	-
Change in unrestricted net assets	-	-	-	-	(826,927)	(826,927)
Balance, September 30, 2012	$ 4,267,515	$ 3,600,000	$ (494,680)	$ 274,211	$ (1,951,199)	$ 5,695,847

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

	Years Ended September 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from subscribers, long distance carriers, and other customers	$ 6,502,060	$ 6,124,078
Cash received from affiliates	1,498,784	1,164,602
Cash paid to suppliers and employees	(3,478,680)	(3,613,119)
Cash paid to affiliates	(1,636,730)	(1,668,552)
Net cash from operating activities	2,885,434	2,007,009
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from the issuance of common stock	2,520	1,975
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to property, plant, and equipment	(1,052,744)	(1,485,841)
Principal payments	(1,067,836)	(880,958)
Proceeds from long-term debt	-	1,000,000
Interest paid on long-term debt	(1,378,505)	(1,431,165)
Grant proceeds received for long-term debt repayment	619,000	-
Net cash from capital and related financing activities	(2,880,085)	(2,797,964)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of certificates of deposit	(21,084)	-
Sales and maturities of certificates of deposit	-	275,147
Interest and dividends received	22,043	16,006
Net cash from investing activities	959	291,153
CHANGE IN CASH AND EQUIVALENTS	8,828	(497,827)
CASH AND EQUIVALENTS, at beginning of year	692,277	1,190,104
CASH AND EQUIVALENTS, at end of year	$ 701,105	$ 692,277

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

	Years Ended September 30, 2012	2011
Operating loss	$ (128,128)	$ (529,798)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation and amorization	2,613,844	2,818,842
Changes in assets and liabilities		
Accounts receivables	37,781	(448,362)
Material and supplies	45,428	57,201
Accounts payable and accrued expenses	313,406	109,893
Advance billing and customer deposits	3,103	(767)
Net cash from operating activities	$ 2,885,434	$ 2,007,009
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITY		
Allowance for funds used during construction	$ 37,663	$ -

Note 1 – Significant Accounting Policies

Nature of operations – Marshall Islands National Telecommunications Authority (NTA or Company), 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 Company 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.

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.

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.

Note 1 – Significant Accounting Policies (continued)

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 Company 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 Company 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 GAAP. Additionally, the Company 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.

The Company'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 Company to maintain them permanently.
  - Expendable - Net assets whose use by the Company is subject to externally imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or that expire by the passage of time.

  The Company has no restricted net assets at September 30, 2012 and 2011.
- **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.

Note 1 – Significant Accounting Policies (continued)

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.

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 Company follows the capitalization policy prescribed by the FCC for regulated telephone companies. This policy requires the capitalization of all assets regardless of cost except for certain general support and central office assets costing less than $2,000, which are expensed when purchased. The cost of maintenance and repairs is charged to operating expenses.

Plant and equipment on hand at September 30, 1989, was valued by an independent source in order to determine estimated cost. All other assets are valued at actual purchase 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 $37,663 and $-0- recorded for the years ended September 30, 2012 and 2011, 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.

Note 1 – Significant Accounting Policies (continued)

Revenue recognition and classification – Billings for local service revenue, basic monthly Internet service, and wireless television services are rendered monthly in advance.

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.

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 and the allowance for doubtful accounts.

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.

Note 2 – Deposits and Investments (continued)

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 Company 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, 2012 and 2011, the carrying amount of NTA's total cash and cash equivalents and time certificates of deposit were $1,073,590 and $1,043,678, respectively, and the corresponding bank balances were $1,071,985 and $1,119,078, respectively. Of the bank balance amounts, $614,327 and $631,692, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, 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.

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, 2012 and 2011, NTA is not holding any investments. NTA only has a certificate of deposit of approximately $372,000 at September 30, 2012, held with the Bank of Marshall Islands.

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.

Note 3 – Property, Plant, and Equipment

Capital asset activities for the years ended September 30, 2012 and 2011, are as follows:

	Depreciable Life	Balance October 1, 2011	Additions	Transfers	Retirements	Balance September 30, 2012
Other investments	5 - 40 years	$ 10,001,522	$ 186,910	$ -	$ -	$ 10,188,432
Central office assets	5 - 20 years	14,775,610	681,702	-	-	15,457,312
Cable and wire facilities assets	20 - 25 years	32,027,670	276,666	-	-	32,304,336
Wireless phone assets	15 years	4,453,179	387,813	-	-	4,840,992
Wireless television assets	5 - 10 years	1,369,201	49,227	-	-	1,418,428
		62,627,182	1,582,318	-	-	64,209,500
Plant under construction	n/a	880,321	746,171	(1,240,770)	-	385,722
		63,507,503	2,328,489	(1,240,770)	-	64,595,222
Less accumulated depreciation		(28,615,393)	(2,610,156)	-	-	(31,225,549)
		$ 34,892,110	$ (281,667)	$ (1,240,770)	$ -	$ 33,369,673

	Depreciable Life	Balance October 1, 2010	Additions	Transfers	Retirements	Balance September 30, 2011
General support assets	5 - 40 years	$ 10,565,641	$ 160,871	$ -	$ (724,990)	$ 10,001,522
Central office assets	5 - 20 years	17,638,728	214,548	-	(3,077,666)	14,775,610
Cable and wire facilities assets	20 - 25 years	31,875,974	151,696	-	-	32,027,670
Wireless phone assets	15 years	5,121,355	126,724	-	(794,900)	4,453,179
Wireless television assets	5 - 10 years	1,308,646	60,555	-	-	1,369,201
		66,510,344	714,394	-	(4,597,556)	62,627,182
Plant under construction	n/a	114,089	791,092	(24,860)	-	880,321
		66,624,433	1,505,486	(24,860)	(4,597,556)	63,507,503
Less accumulated depreciation		(30,512,498)	(2,818,801)	2,729	4,713,177	(28,615,393)
		$ 36,111,935	$ (1,313,315)	$ (22,131)	$ 115,621	$ 34,892,110

Note 4 – Long-Term Debt

Long-term debt is as follows at September 30:

	Interest Rate	Maturity Dates	2012	2011
Rural Utilities Service, fixed	5.00%	2012 - 2031	$ 24,190,397	$ 25,125,172
Rural Utilities Service, variable	3.63% - 3.84%	2031	3,911,761	4,044,822
Republic of the Marshall Islands	0.00%	2021	1,000,000	1,000,000
			29,102,158	30,169,994
Less current maturities			(29,102,158)	(1,267,437)
Total long-term debt			$ -	$ 28,902,557

Substantially all assets of NTA, including specific NTA ground leases, are pledged to secure the RUS notes. The original $18,800,000 RUS note, approved in 1989, has been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by NTA. In 2009, NTA was approved for additional funding from RUS in the amount of $18,500,000 for the construction of a deep sea cable route between Majuro, Kwajalein, and Guam. All of these additional funds were drawn down as of September 30, 2011. RepMar has guaranteed $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. In 2012 and 2011, the Company did not meet the required times interest earned ratio.

In April 2012, the Company defaulted on its loan payments due to RUS. The government of RMI as guarantor was required to make payments on behalf of the Company for April, May, and most of June for a total of $619,000.

Additionally, as of the report date, a portion of the loan payment due in April remains unpaid. Additionally, the Company did not make its $100,000 annual payment to the Republic of the Marshall Islands for the $1,000,000 loan received during 2011. As both loans are currently in default, all amounts due have been reclassified as current liabilities.

Note 4 – Long-Term Debt (continued)

During fiscal year 2011, NTA received a $1,000,000 unsecured interest free note from the Republic of the Marshall Islands to be paid back in the amount of $100,000 per year beginning in March 2012. As of September 30, 2012, no amounts have been repaid on this debt and no waiver has been issued. As such, as of September 30, 2012, the outstanding loan balance has been classified as current.

Annual requirements to retire the long-term debt obligations are as follows (without considering the effects of the loan compliance issue described above):

	2012	
	Principal	Interest
2013	$ 1,528,026	$ 1,423,863
2014	1,386,608	1,261,025
2015	1,450,280	1,197,352
2016	1,516,258	1,131,374
2017	1,588,040	1,059,592
2018 - 2022	9,018,191	4,119,969
2021 - 2027	8,123,666	1,929,349
2028 - 2032	4,491,089	381,226
	$ 29,102,158	$ 12,503,750

Note 4 – Long-Term Debt (continued)

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

	Balance at September 30, 2011	Additions	Reductions	Balance at September 30, 2012	Amount Due in One Year
RUS	$ 29,169,994	$ -	$ (1,067,836)	$ 28,102,158	$ 1,328,026
Republic of Marshall Islands	$ 1,000,000	$ -	$ -	$ 1,000,000	$ 200,000

	Balance at September 30, 2010	Additions	Reductions	Balance at September 30, 2011	Amount Due in One Year
RUS	$ 30,050,952	$ -	$ (880,958)	$ 29,169,994	$ 1,167,437
Republic of Marshall Islands	$ -	$ 1,000,000	$ -	$ 1,000,000	$ 100,000

Note 5 – Deferred Compensation

On October 1, 1995, NTA implemented a defined contribution deferred compensation plan (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 10% 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 certain members of management. The Plan administrators have the authority to revise or set Plan provisions. The Plan's assets are held by ASC Trust Corporation. NTA contributed $82,220 and $80,343 for the years ended September 30, 2012 and 2011, 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 are as follows:

	2012	2011
Revenues		
Air Marshall Islands, Inc.	$ 27,187	$ 38,789
Marshall Islands Social Security Administration	18,292	15,348
Marshalls Energy Company, Inc.	69,191	60,371
Majuro Resort, Inc.	39,478	80,679
Bank of Marshall Islands	91,299	145,057
RepMar and other	1,214,525	1,067,341
	$ 1,459,972	$ 1,407,585
Expenses		
Air Marshall Islands, Inc.	$ 15,689	$ 7,295
Marshall Islands Social Security Administration	366,800	369,321
Marshalls Energy Company, Inc.	794,070	721,751
RepMar and other	465,968	491,185
	$ 1,642,527	$ 1,589,552

Note 6 – Related Party Transactions (continued)

	2012	2011
Current receivables		
Air Marshall Islands, Inc.	$ 4,596	$ 5,392
Marshall Islands Social Security Administration	3,292	2,130
Marshalls Energy Company, Inc.	11,487	5,572
Majuro Resort, Inc.	7,873	3,868
Bank of Marshall Islands	28,656	47,426
RepMar and other	319,777	350,105
	$ 375,681	$ 414,493
Current payables		
Marshall Islands Social Security Administration	$ 84,093	$ 86,603
Marshalls Energy Company, Inc.	61,726	137,084
RepMar and other	112,475	28,810
	$ 258,294	$ 252,497

NTA has uninsured deposit accounts with a financial institution, related through common ownership, of $457,658 and $487,386, as of September 30, 2012 and 2011, respectively.

Note 7 – Lease Agreements

NTA has long-term commitments for several ground leases and satellite circuit leases. Leases are both cancelable and noncancellable operating leases, expiring from 2011 to 2031.

Note 7 – Lease Agreements (continued)

The following is a schedule by years of future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of September 30, 2012:

2013	$ 657,765
2014	650,688
2015	644,112
2016	103,350
2017	84,804
2018 - 2022	424,019
2023 - 2027	408,752
2028 - 2031	316,744
	$ 3,290,234

Total lease payments under the above operating leases for the years ended September 30, 2012 and 2011, were approximately $882,690 and $989,641, 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 multiple contracts for certain construction projects during 2012. The Company had no unpaid obligations against this commitment at September 30, 2012. The remaining amount of the Company's commitment under these contracts was $416,046 at September 30, 2012, which represents future construction work to be provided.

Note 10 – Going Concern

NTA's financial statements have been prepared on a going concern basis. As shown in the accompanying financial statements, NTA continues to incur losses. The Company is in default on its loan agreements and has failed to make scheduled principal and interest payments during 2012 and 2013. The Company is not aware of any alternate sources of capital to meet its obligations under its primary loan agreement. As discussed in Note 4, RepMar has guaranteed a significant portion of NTA's outstanding debt. At September 30, 2012, the maximum amount RepMar would be obligated to pay under the guarantee is approximately $12 million. In previous years through FY 2010, RepMar had demonstrated the ability and willingness to provide financing for the portion of the RUS loan attributable to NTA to the debt for the cable. However, no such support was provided in FY 2011 and none in FY 2012 until NTA defaulted on the loan payments. As of the date of the report, it is uncertain whether RepMar is willing to continue to support NTA. The ability of the Company to continue as a going concern is dependent on management's plan and the resolution of the aforementioned issues. No assurance is given that the Company will be successful in these efforts. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

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*

Board of Directors
Marshall Islands National Telecommunications Authority

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, 2012, and have issued our report thereon dated May 20, 2013. 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

Management of NTA is responsible for establishing and maintaining effective 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.

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 and therefore, there can be no assurance that all deficiencies, significant, deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses (Finding 2012-01).

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* (continued)

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Finding 2012-01).

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*.

NTA's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit NTA's response and accordingly, we express no opinion on it.

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

Moss Adams LLP

Spokane, Washington
May 20, 2013

For the year ended September 30, 2012

Financial Statement Findings

FINDING 2012-01 – Financial Close and Reporting

Criteria or specific requirement – The Company is responsible for implementing internal controls to prevent errors in its financial statements. The Company should have a process in place to reconcile accounts on a regular basis and variances should be resolved in a timely manner. Account reconciliations serve as a key control to ensure that errors are identified and corrected on a timely basis.

Condition – The Company was not prepared to have the audit conducted until six months after year end due to the significant volume of transactions that had not been posted to the general ledger and a lack of completed account reconciliations.

Cause – The Company lacks oversight on the account reconciliation process and preparation of internal financial statements.

Effect – Several adjusting entries were posted during the audit to ensure the financial statements accurately reflected the assets, liabilities, revenues, and expenses of the Company. In addition, the Company was unable to provide accurate financial statements in a timely manner.

Recommendation – We recommend that all general ledger accounts be reconciled and reviewed on a monthly basis and adjusting entries posted as needed.

View of officials – The Company has historically not reconciled or analyzed all accounts on a monthly basis. This is in part because of internal policies and procedures, and is in part due to the lack of sufficient qualified staff to perform all reconciliations and to record the resulting corrections. It is the intention of management to hire additional qualified staff in FY 2013 and to revise internal policies as to reconciliations and account analyses.

The primary cause of the delay in preparing for the FY 2012 audit was due to a change of management staff and the lack of training of subordinate staff in critical recording areas. This situation required five months to rectify and is not a recurring problem.

MOSS ADAMS LLP
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INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Board of Directors
Marshall Islands National Telecommunications Authority

We have audited the financial statements of Marshall Islands National Telecommunications Authority (NTA or Company), a component unit of the Republic of the Marshall Islands, for the year ended September 30, 2012, and have issued our report thereon dated May 20, 2013. 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 Company'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 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 identified the following deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

INDEPENDENT AUDITOR'S MANAGEMENT LETTER
(continued)

Material Weakness – Financial Close and Reporting
The Company was not prepared to have the audit conducted until six months after year end due to the significant volume of transactions that had not been posted to the general ledger and a lack of completed account reconciliations. Several adjusting entries were posted during the audit to ensure the financial statements accurately reflected the assets, liabilities, revenues, and expenses of the Company. In addition, the Company was unable to provide accurate financial statements in a timely manner.

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 May 20, 2013) 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.

INDEPENDENT AUDITOR'S MANAGEMENT LETTER
(continued)

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, except as noted above, 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, 2012, 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:
  - ➢ Agreed amounts between NTA's December 31, 2011, accounting records and the amounts reported on the *Operating Report for Telecommunications Borrowers* to RUS.

INDEPENDENT AUDITOR'S MANAGEMENT LETTER
(continued)

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);
- The borrower has submitted its *Operating Report for Telecommunications Borrowers* to RUS and the operating report for telecommunications borrowers, as of December 31, 2011, represented by the borrower as having been submitted to RUS is 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 Company 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, 2012, 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, 2012.

INDEPENDENT AUDITOR'S MANAGEMENT LETTER
(continued)

This report is intended solely for the information and use of the Board of Directors, management, the RUS, and supplementary 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
May 20, 2013