**REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS**

**MARSAHLL ISLANDS NATIONAL
TELECOMMUNICATIONS AUTHORITY**

SEPTEMBER 30, 2011 AND 2010

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying 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, 2011 and 2010, 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, 2011 and 2010, 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 March 2, 2012, 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
March 2, 2012

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 2011 with fiscal years 2009 and 2010 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 (assets minus liabilities). Significant statement of net assets items are discussed in the footnotes to the financial statements.

STATEMENT OF NET ASSETS, CONTINUED

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 (assets minus liabilities), which is a useful indicator of whether the financial position of the Authority is improving or deteriorating.

Condensed Statement of Net Assets	**2011**	2010	2009
Assets			
Current assets	**$ 2,688,066**	$ 3,069,879	$ 4,203,414
Plant assets, net	**34,892,110**	36,111,935	33,947,192
Other noncurrent assets	**-**	916,331	958,209
TOTAL ASSETS	**$ 37,580,176**	$ 40,098,145	$ 39,108,815
Liabilities			
Current liabilities	**$ 2,157,365**	$ 1,723,713	$ 2,132,247
Noncurrent liabilities	**28,902,557**	29,108,041	27,766,373
Total liabilities	**31,059,922**	30,831,754	29,898,620
Invested in capital assets, net of related debt	**4,722,116**	6,060,983	5,378,243
Unrestricted net assets	**1,798,138**	3,205,408	3,831,952
Total net assets and stockholders' equity	**6,520,254**	9,266,391	9,210,195
TOTAL LIABILITIES AND NET ASSETS AND STOCKHOLDERS' EQUITY	**$ 37,580,176**	$ 40,098,145	$ 39,108,815

The total assets of the Authority decreased $2,517,969 from fiscal year 2010. A review of the statement of net assets will reveal that under the Current Assets our cash and equivalents, certificate of deposit, and material and supplies decreased significantly while the telecommunications receivables, the bad debt allowance, and affiliates receivables increased significantly. During 2011, the Authority experienced issues with its billing system, which slowed collections from its customers. Deferred assets were fully retired. Selected property, plant, and equipment were retired generating a significant decrease in assets.

The total liabilities of the Authority increased $228,168 from fiscal year 2010. The primary cause for change is the increase in the current liabilities, while long-term debt increased slightly. During 2011, the Authority obtained a $1 million loan from the Republic of the Marshall Islands. The total net assets of the Authority is affected by the changes in both assets and liabilities in the amount of $2,746,137.

STATEMENT OF NET ASSETS, CONTINUED

This year's budget for capital expenditures was not reached as open projects for the DAMA call centers and the GSM equipment and site upgrade remain a work in progress. Several company-wide improvements in transport equipment, buildings, and switching equipment were completed.

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, 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 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.

The statement of revenues and expenses reflects a negative year in 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	Year Ended September 30, 2011	2010	2009
Operating revenues	$ 7,737,809	$ 8,037,500	$ 7,792,259
Operating expenses	8,267,607	8,130,111	7,191,441
Operating income (loss)	(529,798)	(92,611)	600,818
Nonoperating income (expense)	(2,218,314)	144,752	228,464
CHANGE IN NET ASSETS	$ (2,748,112)	$ 52,141	$ 829,282

Overall, operating revenues decreased significantly for long distance network, Internet, and the miscellaneous revenue while private line access, cellular network services including phone sales, and wireless TV revenues generated moderate to significant gains from prior year. The decrease in long distance network and Internet are due to declining minutes of use and changes to rate plans as a result of the Authority transitioning from minutes of use plans to flat rate plans. Miscellaneous revenue includes the uncollectible accounts, which increased as a result of the collection issues discussed above. Customer counts and increased minutes of use have contributed to the growth of cellular, TV, and private line revenues.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS, CONTINUED

Overall operating expenses increased slightly for the plant specific operations due to increases in land, building, and deep sea cable expenses while wireless, TV, and circuit costs decreased slightly. Depreciation and amortization costs increased moderately and corporate operations expense decreased moderately.

Nonoperating revenue and expense decreased significantly due to early retirement of the deferred cellular assets and increases in loan interest expenses for the fiber optical cable. In addition, NTA received a $1 million grant from the Republic of the Marshall Islands in 2010, which was the final payment for the fiber cable project.

This year's actual operating revenue was significantly lower than budget with all revenue categories showing lower than budget results with the exception of the local network services. Actual expenses were slightly higher than budget overall with the exception of center office expenses, circuit rental costs, and general administrative costs. Nonoperating expenses were significantly higher than budget due to the deferred cellular asset losses.

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, and current cellular services received upgrades and expansions through the year. The customer information and billing system was replaced with an interim system as a permanent solution is being developed.

Debt payments made during the fiscal year continue to reduce the restated mortgage and loan agreement on our long-term debt, aside from an increase due to a new $1 million loan. The Authority acquired a noninterest bearing loan from the RMI government to complete service connectivity to various ministries.

The TDMA cellular system, a deferred asset with a net book value of $798,108, was fully retired during the year.

ECONOMIC OUTLOOK

The Authority is aware of a national telecommunications policy being 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. Communications and discussions with government supportive financial institutions have given the leaders various options that will impact the Authority's ability to compete.

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. With the acquisition of a 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.

ASSETS

	September 30, 2011	September 30, 2010
CURRENT ASSETS		
Cash and cash equivalents	$ 692,277	$ 1,190,104
Certificates of deposit	351,401	626,548
Telecommunications accounts receivable, less allowance for doubtful accounts of $903,535 and $412,276 in 2011 and 2010, respectively	645,823	445,351
Other accounts receivable	316,175	297,712
Accounts receivable, affiliates	414,493	185,066
Material and supplies	267,897	325,098
Total current assets	2,688,066	3,069,879
DEFERRED ASSETS, NET	-	916,331
PROPERTY, PLANT, AND EQUIPMENT		
Telecommunications plant in service	61,257,981	65,201,698
Wireless television plant in service	1,369,201	1,308,646
Telecommunications plant under construction	880,321	114,089
	63,507,503	66,624,433
Less accumulated depreciation	28,615,393	30,512,498
Total property, plant, and equipment, net	34,892,110	36,111,935
	$ 37,580,176	$ 40,098,145

LIABILITIES AND NET ASSETS AND STOCKHOLDERS' EQUITY

	September 30, 2011	September 30, 2010
CURRENT LIABILITIES		
Accounts payable, general	$ 238,206	$ 219,559
Accounts payable, affiliates	252,497	164,544
Current maturities of long-term debt	1,267,437	942,911
Advance billings and customer deposits	297,666	298,433
Other accrued liabilities	101,559	98,266
Total current liabilities	2,157,365	1,723,713
LONG-TERM DEBT, net of current portion	28,902,557	29,108,041
Total liabilities	31,059,922	30,831,754
NET ASSETS AND STOCKHOLDERS' EQUITY		
Invested in capital assets, net of related debt	4,722,116	6,060,983
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, 2011 and 2010, respectively	3,600,000	3,600,000
Additional paid-in capital	271,691	269,716
Retained deficit	(1,578,873)	(169,628)
	2,292,818	3,700,088
Treasury stock, at par value, 49,468 shares	(494,680)	(494,680)
	1,798,138	3,205,408
Total net assets	6,520,254	9,266,391
	$ 37,580,176	$ 40,098,145

See accompanying notes.

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, 2011	2010
Operating revenues		
Local network services	$ **1,098,538**	$ 1,142,487
Local cellular network services	**2,002,992**	1,553,154
Private line access	**2,450,902**	1,949,168
Wireless television services	**314,889**	194,609
Internet	**114,705**	465,727
Long distance network services	**2,361,423**	2,746,476
Miscellaneous	**(605,640)**	(14,121)
Total operating revenue	**7,737,809**	8,037,500
Operating expenses		
Plant specific operations	**2,832,877**	2,633,204
Plant nonspecific operations	**1,231,391**	1,341,919
Depreciation and amortization	**2,818,842**	2,312,739
Corporate operations	**607,705**	1,066,986
Customer operations	**776,792**	775,263
Total operating expenses	**8,267,607**	8,130,111
Operating loss	**(529,798)**	(92,611)
Nonoperating income (expense)		
Interest and dividends	**16,006**	67,330
Loss on disposal of assets	**(803,155)**	-
Grant from governmental agency	**-**	1,040,250
Interest expense, net of allowance for funds used during construction	**(1,431,165)**	(962,828)
Total nonoperating income	**(2,218,314)**	144,752
CHANGE IN NET ASSETS	$ **(2,748,112)**	$ 52,141

See accompanying notes.

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 (Deficit)	Total
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 unrestricted 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
Sale of 283 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

See accompanying notes.

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

	Year Ended September 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from subscribers, long distance carriers, and other customers	**$ 6,124,078**	$ 6,450,962
Cash received from affiliates	**1,164,602**	1,437,280
Cash paid to suppliers and employees	**(3,613,119)**	(4,974,065)
Cash paid to affiliates	**(1,668,552)**	(1,346,939)
Net cash from operating activities	**2,007,009**	1,567,238
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from the issuance of common stock	**1,975**	4,055
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to property, plant, and equipment	**(1,485,841)**	(3,970,135)
Principal payments	**(880,958)**	(802,983)
Proceeds from long-term debt	**1,000,000**	2,284,986
Interest paid on long-term debt	**(1,431,165)**	(1,428,297)
Grant proceeds received for construction and acquisition of plant	**-**	1,040,250
Net cash from capital and related financing activities	**(2,797,964)**	(2,876,179)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	**-**	(294,838)
Sales and maturities of investments	**-**	1,588,109
Purchases of certificates of deposit	**-**	(500,000)
Sales and maturities of certificates of deposit	**275,147**	703,981
Interest and dividends received	**16,006**	67,330
Net cash from investing activities	**291,153**	1,564,582
CHANGE IN CASH AND EQUIVALENTS	**(497,827)**	259,696
Cash and cash equivalents, at beginning of year	**1,190,104**	930,408
Cash and cash equivalents, at end of year	**$ 692,277**	$ 1,190,104

STATEMENT OF CASH FLOWS

	Year Ended September 30, 2011	2010
Operating loss	**$ (529,798)**	$ (92,611)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation and amorization	**2,818,842**	2,312,739
Changes in assets and liabilities:		
Accounts receivables	**(448,362)**	(165,993)
Material and supplies	**57,201**	61,972
Accounts payable and accrued expenses	**109,893**	(565,604)
Advance billing and customer deposits	**(767)**	16,735
NET CASH FROM OPERATING ACTIVITIES	**$ 2,007,009**	$ 1,567,238
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITY		
Allowance for funds used during construction	**$ -**	$ 465,469

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.

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.

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.

Note 1 - Significant Accounting Policies (Continued)

Basis of accounting (continued):
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 (FCC) 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.

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, 2011 and 2010.

- 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.

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.

Note 1 - Significant Accounting Policies (Continued)

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 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 $-0- and $465,469 recorded for the years ended September 30, 2011 and 2010, 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, 2011 and 2010, no assets had been written down.

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, 2011 and 2010, 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, 2011 and 2010, amortization expense relating to this asset was $105,086 and $41,878, 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.

In 2011, the remaining balances on all of the deferred assets pertaining to the TDMA equipment was retired. The retirement resulted in a net loss on disposal of assets of $798,108.

As of September 30, 2011 and 2010, the net book value relating to deferred assets amounted to $-0- and $916,331, respectively.

Note 1 - Significant Accounting Policies (Continued)

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.

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 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, 2011 and 2010, the carrying amount of NTA's total cash and cash equivalents and time certificates of deposit were $1,043,678 and $1,816,652, respectively, and the corresponding bank balances were $1,119,078 and $1,829,004, respectively. Of the bank balance amounts, $631,692 and $1,119,738, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, there were no investments in any one issuer that exceeded 5% of total investments.

Note 3 - Property, Plant, and Equipment

Capital asset activities for the years ended September 30, 2011 and 2010, are as follows:

	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

	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

Note 4 - Long-Term Debt

Long-term debt is as follows at September 30:

	Interest Rate	Maturity Dates	**2011**	2010
Rural Utilities Service, fixed	5.00%	2011 - 2031	**$ 25,125,172**	$ 25,923,952
Rural Utilities Service, variable	3.63% - 3.84%	2031	**4,044,822**	4,127,000
Republic of the Marshall Islands	0.00%	2021	**1,000,000**	-
			30,169,994	30,050,952
Less current maturities			**(1,267,437)**	(942,911)
			$ 28,902,557	$ 29,108,041

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. Of these additional funds, approximately $18,500,000 was drawn down as of September 30, 2011 and 2010. 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. NTA was in violation of the RUS covenant to not obtain new debt without RUS's approval. RUS has waived the covenant.

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 of 2012.

At September 30, 2011, 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:

	2011	
	Principal	Interest
2012	$ 1,267,437	$ 1,379,552
2013	1,325,174	1,321,815
2014	1,385,791	1,261,198
2015	1,449,432	1,197,558
2016	1,516,248	1,130,741
2017 - 2021	8,706,271	4,528,675
2022 - 2026	8,827,985	2,338,296
2027 - 2031	5,691,656	627,165
	$ 30,169,994	$ 13,785,000

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

	Balance at September 30, 2010	**Additons**	**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**

	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

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 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 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 $80,343 and $55,026 for the years ended September 30, 2011 and 2010, 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:

	2011	2010
Revenues		
Air Marshall Islands, Inc.	$ 38,789	$ 51,920
Marshall Islands Social Security Administration	15,348	29,615
Marshalls Energy Company, Inc.	60,371	67,188
Majuro Resort, Inc.	80,679	69,041
Bank of Marshall Islands	145,057	140,650
RepMar and other	1,067,341	1,035,615
	$ 1,407,585	$ 1,394,029
Expenses		
Air Marshall Islands, Inc.	$ 7,295	$ 5,063
Marshall Islands Social Security Administration	369,321	373,617
Marshalls Energy Company, Inc.	721,751	658,574
RepMar and other	491,185	719,251
	$ 1,589,552	$ 1,756,505

Note 6 - Related Party Transactions (Continued)

	2011	2010
Current receivables		
Air Marshall Islands, Inc.	$ 5,392	$ 7,229
Marshall Islands Social Security Administration	2,130	1,974
Marshalls Energy Company, Inc.	5,572	10,331
Majuro Resort, Inc.	3,868	7,253
Bank of Marshall Islands	47,426	14,956
RepMar and other	350,105	143,323
	$ 414,493	$ 185,066
Current payables		
Marshall Islands Social Security Administration	$ 86,603	$ 85,782
Marshalls Energy Company, Inc.	137,084	45,465
RepMar and other	28,810	33,297
	$ 252,497	$ 164,544

NTA has uninsured deposit accounts with a financial institution, related through common ownership, of $487,386 and $709,265, as of September 30, 2011 and 2010, 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 2031.

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, 2011:

2012	$ 813,965
2013	722,565
2014	715,488
2015	676,512
2016	103,350
2017 - 2021	424,019
2022 - 2026	413,841
2027 - 2031	396,459
	$ 4,266,199

Note 7 - Lease Agreements (Continued)

Total lease payments under the above operating leases for the years ended September 30, 2011 and 2010, were approximately $989,641 and $905,581, 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 2011. The Authority had no unpaid obligations against this commitment at September 30, 2011. The remaining amount of the Authority's commitment under these contracts was $754,553 at September 30, 2011, which represents future construction work to be provided.