



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

**INDEPENDENT AUDITOR'S REPORT
and
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2005 AND 2004

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Marshall Islands National Telecommunications Authority, a component unit of the Republic of the Marshall Islands, as of September 30, 2005 and 2004, and the related statements of revenues and expenses, 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 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 that 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, 2005 and 2004, 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 a report dated November 18, 2005, 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 the 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
November 18, 2005

**MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 2005 with fiscal year 2004 prior year data presented for comparative purposes. There are four financial statements presented: the balance sheet, the statement of revenues and expenses, the statement of net assets and stockholders' equity, and the statement of cash flows.

This discussion and analysis of the Authority's financial statements provides an overview of its financial activities for the year.

Balance sheet:

The balance sheet presents the assets, liabilities, and net assets and stockholders' equity as of the end of the fiscal year. The balance sheet is a point of time financial statement. The purpose of the balance sheet is to present to the readers of the financial statements a fiscal snapshot of the Authority. The balance sheet presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). Significant balance sheet items are discussed in the footnotes to the financial statements.

From the data presented, readers of the balance sheet 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 balance sheet 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.

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Balance sheet (continued):

Condensed Balance Sheet

	September 30,	
	2005	2004
Assets		
Current assets	\$ 6,318,987	\$ 5,844,945
Plant assets, net	17,774,223	18,344,429
TOTAL ASSETS	\$ 24,093,210	\$ 24,189,374
Liabilities		
Current liabilities	\$ 1,549,885	\$ 1,471,729
Noncurrent liabilities	14,839,075	15,582,411
Total liabilities	16,388,960	17,054,140
Invested in capital assets, net of related debt	2,185,502	2,049,669
Restricted net assets	3,291,430	3,291,805
Unrestricted net assets	2,227,318	1,793,760
Total net assets and stockholders' equity	7,704,250	7,135,234
TOTAL LIABILITIES AND NET ASSETS AND STOCKHOLDERS' EQUITY	\$ 24,093,210	\$ 24,189,374

The total assets of the Authority decreased by \$96,000. However, a review of the balance sheet will reveal that cash, cash equivalents, telecommunications accounts receivable, and receivables from affiliates decreased slightly; investments, other accounts receivable, and material and supplies increased moderately; and net property, plant, and equipment decreased slightly.

The total liabilities of the Authority decreased by \$665,000. The primary cause for this change is the decrease in the long-term debt from scheduled principal payments made during the year. This offsets a moderate increase in the current maturity of the long-term debt, advance billing and customer deposits, and accounts payable to affiliates at year end.

The total net assets of the Authority increased by \$569,000 as a result of excess revenues over expenses for the year.

**MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS**

Balance sheet (continued):

This year's budget for capital expenditures was reached and prior year commitments for the additional cellular tower and related base station installation were placed in service. The prior year commitment for the outer island earth station and wireless equipment installation remains a work-in-progress project.

Statement of revenues and expenses:

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 and expenses. The purpose of the statement is to present the revenues received by the Authority, both operating and nonoperating, and expenses paid by the Authority, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the Authority.

Generally speaking, operating revenues are received for providing telecommunications goods and services to various customers. Operating expenses are those expenses paid to acquire or produce the goods or services provided in return for the operating revenues, and to carry out the mission of the Authority. Nonoperating 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 positive year with an increase in net assets and stockholders' equity at the end of the year. Some highlights of the information presented on the statement of revenues and expenses are as follows:

Condensed Statement of Revenues and Expenses	Year Ended September 30,	
	2005	2004
Operating revenues	\$ 5,785,596	\$ 5,594,266
Operating expenses	5,384,728	5,541,889
Operating income	400,868	52,377
Nonoperating revenue (expenses)	(468,794)	(569,725)
Capital contribution received	654,852	-
NET INCOME (LOSS)	\$ 586,926	\$ (517,348)

Overall operating revenues increased mainly from an increase in prepaid card revenues, Internet usage services, and a decrease in uncollectible revenue. Nonregulated revenue remained level due to lack of new customer installations and local telephone sales.

Overall operating expenses decreased mainly from plant specific operations, plant nonspecific operations, and customer operations, while corporate operations and depreciation increased. Net nonoperating expense decreased moderately due to gains in stock market investments during this fiscal year.

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)
MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of revenues and expenses (continued):

This year's actual operating revenue was significantly lower than budget with prepaid card and Internet service revenue showing higher than budget results. Actual expenses were significantly lower than budget in all operations. Net nonoperating expenses were moderately lower than budget due to investment income results.

Capital asset and debt administration:

Several revenue-generating assets were put in service this fiscal year as part of the Authority's maintenance and improvements program. Expansion and upgrades were performed on earth station facilities, cellular services, and the management network.

Scheduled principal payments made during the fiscal year continue to reduce the long-term debt. No new debt was acquired.

Economic outlook:

The Authority is aware of conditions in the regulatory environment that may have a negative impact on its financial strength related to a national telecommunications policy being developed by the National Government.

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. These modern telecommunications services should go a long way in assisting the Republic of the Marshall Islands in its efforts to attract investors and further develop our island nation.

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)
BALANCE SHEET

ASSETS

	September 30,	
	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,174,925	\$ 1,208,795
Investments and deposits	3,586,370	3,267,690
Telecommunications accounts receivable, less allowance for doubtful accounts of \$1,428,618 and \$1,309,553 in 2005 and 2004, respectively	348,103	419,665
Other accounts receivable	506,959	386,877
Accounts receivable, affiliates	334,378	338,289
Material and supplies	351,226	218,479
Other current assets	17,026	5,150
	<hr/>	<hr/>
Total current assets	6,318,987	5,844,945
	<hr/>	<hr/>
PROPERTY, PLANT, AND EQUIPMENT		
Telecommunications plant in service	38,909,718	39,581,186
Telecommunications plant under construction	1,630,099	1,269,079
	<hr/>	<hr/>
	40,539,817	40,850,265
Less accumulated depreciation	22,765,594	22,505,836
	<hr/>	<hr/>
Total property, plant, and equipment, net	17,774,223	18,344,429
	<hr/>	<hr/>
	\$ 24,093,210	\$ 24,189,374
	<hr/>	<hr/>

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)
BALANCE SHEET

LIABILITIES AND NET ASSETS AND STOCKHOLDERS' EQUITY

	September 30,	
	2005	2004
CURRENT LIABILITIES		
Accounts payable, general	397,760	407,858
Accounts payable, affiliates	123,272	113,190
Current maturities of long-term debt	749,646	712,349
Advance billings and customer deposits	216,102	197,693
Other accrued liabilities	63,105	40,639
Total current liabilities	1,549,885	1,471,729
LONG-TERM DEBT	14,839,075	15,582,411
Total liabilities	16,388,960	17,054,140
COMMITMENTS AND CONTINGENCIES (Notes 8, 9, and 10)		
NET ASSETS AND STOCKHOLDERS' EQUITY		
Invested in capital assets, net of related debt	2,185,502	2,049,669
Restricted for:		
Stockholders' equity		
Common stock, \$10 par value, 360,000 shares authorized; 276,085 and 275,922 shares issued; 245,252 and 245,089 shares outstanding at September 30, 2005 and 2004, respectively	3,600,000	3,600,000
Treasury stock, at par value, 30,833 shares	(308,330)	(308,330)
	3,291,670	3,291,670
Common stock subscribed	(240)	135
Total restricted net assets	3,291,430	3,291,805
Unrestricted from:		
Unrestricted net assets from operations	2,020,331	1,587,238
Additional paid-in capital	206,987	206,522
Total unrestricted net assets	2,227,318	1,793,760
Total net assets and stockholders' equity	7,704,250	7,135,234
	\$ 24,093,210	\$ 24,189,374

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)
STATEMENT OF REVENUES AND EXPENSES

	Year Ended September 30,	
	2005	2004
Operating revenues		
Local network services	\$ 1,536,677	\$ 1,540,232
Long distance network services	2,808,949	2,815,099
Internet services	1,263,264	1,155,728
Miscellaneous	19,627	42,889
Prepaid card revenue	487,488	380,795
Nonregulated revenue	17,782	15,979
Uncollectible	(348,191)	(356,456)
	5,785,596	5,594,266
 Operating expenses		
Plant specific operations	1,210,472	1,257,796
Plant nonspecific operations	921,296	1,072,235
Depreciation	1,830,434	1,769,040
Customer operations	666,158	780,666
Corporate operations	747,249	654,537
Nonregulated	9,119	7,615
	5,384,728	5,541,889
 Operating income	400,868	52,377
 Nonoperating income (expense)		
Investment income	310,521	263,135
Grant from governmental agency	654,852	-
Interest expense	(797,315)	(832,860)
	168,058	(569,725)
 Total nonoperating income (expense)	168,058	(569,725)
 NET INCOME (LOSS)	\$ 568,926	\$ (517,348)

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

	Restricted Net Assets			Unrestricted Net Assets			Total
	Invested in Capital Assets	Common Stock	Treasury Stock	Stock Subscriptions Receivable	Unrestricted Net Assets from Operations	Additional Paid-In Capital	
Balance, September 30, 2003	\$ 1,980,588	\$ 3,600,000	\$ (308,330)	\$ (198)	\$ 2,371,167	\$ 205,508	\$ 7,848,735
Sale of 324 shares of common stock for cash, less stock subscriptions receivable and par value due to RepMar	-	-	-	333	-	1,014	1,347
2004 change in invested in capital assets, net of related debt	69,081	-	-	-	(69,081)	-	-
Dividends paid	-	-	-	-	(197,500)	-	(197,500)
Net loss for 2004	-	-	-	-	(517,348)	-	(517,348)
Balance, September 30, 2004	2,049,669	3,600,000	(308,330)	135	1,587,238	206,522	7,135,234
Sale of 163 shares of common stock for cash, less stock subscriptions receivable and par value due to RepMar	-	-	-	(375)	-	465	90
2005 change in invested in capital assets, net of related debt	135,833	-	-	-	(135,833)	-	-
Net income for 2005	-	-	-	-	568,926	-	568,926
Balance, September 30, 2005	\$ 2,185,502	\$ 3,600,000	\$ (308,330)	\$ (240)	\$ 2,020,331	\$ 206,987	\$ 7,704,250

See accompanying notes.

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

	<u>Year Ended September 30,</u>	
	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from subscribers, long distance carriers and other customers	\$ 4,747,027	\$ 4,390,763
Cash received from affiliates	1,012,369	1,166,798
Cash paid to suppliers and employees	(3,026,753)	(3,084,912)
Cash paid to affiliates	(649,714)	(414,284)
Net cash provided by operating activities	<u>2,082,929</u>	<u>2,058,365</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from the issuance of common stock	90	1,346
Dividends paid to stockholders	-	(197,500)
Net cash provided (used) by noncapital financing activities	<u>90</u>	<u>(196,154)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction and acquisition of plant	(1,260,229)	(1,167,625)
Principal payments on long-term debt	(706,039)	(670,494)
Interest paid on long-term debt	(797,315)	(832,860)
Grant proceeds received for construction and acquisition of plant	654,852	-
Net cash used by capital and related financing activities	<u>(2,108,731)</u>	<u>(2,670,979)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(502,800)	(842,111)
Sales of investments	399,046	1,344,387
Interest and dividends received from investments	95,596	(13,871)
Net cash provided (used) by investing activities	<u>(8,158)</u>	<u>488,405</u>
CHANGE IN CASH AND EQUIVALENTS	(33,870)	(320,363)
Cash and cash equivalents, at beginning of year	<u>1,208,795</u>	<u>1,529,158</u>
Cash and cash equivalents, at end of year	<u>\$ 1,174,925</u>	<u>\$ 1,208,795</u>

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

	Year Ended September 30,	
	2005	2004
OPERATING INCOME	\$ 400,868	\$ 52,377
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	1,830,434	1,769,040
Changes in assets and liabilities:		
Receivables	(44,609)	139,291
Material and supplies	(132,747)	18,588
Other assets	(11,876)	427,736
Accounts payable and accrued expenses	22,450	(172,672)
Advance billing and customer deposits	18,409	(175,995)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,082,929	\$ 2,058,365
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITY		
Net increase in fair value of investments	\$ 172,835	\$ 212,845

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)
NOTES TO FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies

Nature of operations:

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

Organization:

NTA was created under Public Law 1987-15, which was subsequently repealed and replaced by Public Law 1990-105. NTA commenced operations on May 1, 1987. Prior to the creation of NTA, telecommunication services in the Republic of the Marshall Islands were administered under the Ministry of Transportation and Communications of the Government of the Republic of the Marshall Islands (RepMar).

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

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

Initially, the unissued shares were offered for sale only to citizens of the Republic of the Marshall Islands under a prospectus dated November 25, 1991. In 2001 and 2002, Public Law 1990-105 was amended to increase the ownership of shares of NTA from a maximum two percent (2%) to fifty percent (50%) of total authorized stock. In addition to other changes, ownership status was changed to add legal residents, foreign investors, corporations, or entities of the Republic of the Marshall Islands as defined by public law.

Pursuant to Public Law 1990-105, \$10 of the proceeds of each share of the originally unissued common stock sold to private investors will be disbursed to RepMar. The intent of the law is for the \$10 per share payment to constitute a return of capital originally contributed by RepMar.

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)
NOTES TO FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies (Continued)

Organization (continued):

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

Effective August 20, 2002, RepMar contracted to purchase 29,167 treasury shares from NTA for \$350,000. As of September 30, 2002, the shares were not fully paid for and were recorded as subscribed treasury stock; the shares were issued in 2003.

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

Proprietary funds are accounted for based on the flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the balance sheet.

The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Cash and cash equivalents:

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.

**MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Significant Accounting Policies (Continued)

Investments:

Investments are reported at fair value using quoted market prices.

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, and are included in other accounts receivable.

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

Material and supplies:

Material and supplies are stated at the lower of cost (specific identification method) or replacement market. A majority of materials and supplies are placed directly into plant under construction and therefore, NTA uses the consumption method of accounting for materials and supplies.

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 cost.

Property, plant, and equipment are depreciated using the straight-line method based on the estimated useful lives of the respective assets, generally ranging from 3 to 40 years.

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 no AFUDC recorded for the years ended September 30, 2005 or 2004.

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)
NOTES TO FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies (Continued)

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 that 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, 2005 and 2004, no assets had been written down.

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 and basic monthly Internet service are rendered monthly in advance. Advance billings are recorded as a liability and subsequently transferred to income in the period earned.

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, and cellular services.

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

Nonregulated activities:

NTA accounts for its nonregulated activities as follows:

Nonregulated activities involving the joint use of regulated assets are accounted for within the prescribed regulated system of accounts for telephone company operations. These activities include directory services and other income items incidental to the provision of regulated telephone services.

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 and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)
NOTES TO FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies (Continued)

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.

New accounting standard:

Effective October 1, 2004, the Authority adopted GASB No. 40, *Deposit and Investment Risk Disclosures*. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. GASB No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Risks identified by application of this standard are disclosed in Notes 2 and 3.

Note 2 - Deposits With Financial Institutions

Demand deposits and time deposits held at financial institutions at September 30 consist of the following:

	2005		2004	
	<u>Book Value</u>	<u>Bank Value</u>	<u>Book Value</u>	<u>Bank Value</u>
Demand deposit and money market:				
Amount insured by FDIC	\$ 155,573	\$ 219,037	\$ 225,420	\$ 214,371
Uncollateralized and uninsured	<u>1,019,352</u>	<u>1,004,935</u>	<u>983,375</u>	<u>1,077,463</u>
	<u>\$ 1,174,925</u>	<u>\$ 1,223,972</u>	<u>\$ 1,208,795</u>	<u>\$ 1,291,834</u>
Time deposit :				
Amount insured by FDIC	\$ -	\$ -	\$ -	\$ -
Uncollateralized and uninsured	<u>1,389,978</u>	<u>1,389,978</u>	<u>1,323,016</u>	<u>1,323,016</u>
	<u>\$ 1,389,978</u>	<u>\$ 1,389,978</u>	<u>\$ 1,323,016</u>	<u>\$ 1,323,016</u>

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)
NOTES TO FINANCIAL STATEMENTS

Note 3 - Investments

Investments are recorded at market value. Cash, money funds, and certificates of deposit held in brokerage accounts are treated as investments. Investments at September 30, 2005 and 2004, consisted of the following:

	<u>2005</u>	<u>2004</u>
Cash deposits with broker	\$ 2,671	\$ 5,125
Money funds	96,383	82,570
Certificates of deposit	2,931	3,704
Government bonds	292,087	296,894
Stocks	<u>1,802,320</u>	<u>1,556,381</u>
	<u>\$ 2,196,392</u>	<u>\$ 1,944,674</u>

Equity holdings are restricted to readily marketable securities of corporations that are actively traded on the major exchanges or over-the-counter. Fixed income securities must have a credit quality rating of no less than "BBB," with a minimum of 80% of the portfolio invested in securities equal to or greater than "A."

Investments in unregistered or nonnegotiable securities; commodities or commodity contracts; short sales; margin transactions; options and futures are prohibited without prior Board of Director approval. The Authority had no such investments at September 30, 2005 or 2004.

Custodial credit risk-deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. NTA does not have a deposit policy for custodial credit risk. As of September 30, 2005, \$1,019,352 of NTA's bank balance of \$1,174,925 was exposed to custodial credit risk by being uninsured and uncollateralized.

Interest rate risk:

Investments in securities that are fixed for longer periods are likely to experience greater variability in fair value due to future changes in interest rates. The authority does not specifically identify in its formal investment policy, limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of September 30, 2005, NTA held government securities in the amount of \$292,087 that mature from under one year to ten years.

Foreign currency risk:

NTA's investment policy permits the acquisition of securities denominated in foreign currencies. There is a risk that changes in exchange rates could adversely affect the fair value of these investments. As of September 30, 2005, NTA had no securities denominated in foreign currency.

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

Note 4 - Property, Plant, and Equipment

Property, plant, and equipment balances together with accumulated depreciation and amortization consist of the following at September 30, 2005 and 2004:

	<u>Plant Account</u>	<u>Accumulated Depreciation</u>	<u>2005 Net Balance</u>	<u>2004 Net Balance</u>
Depreciable assets:				
Plant in service	\$ 38,909,718	\$ 22,765,594	\$ 16,144,124	\$ 17,075,350
Nondepreciable assets:				
Plant under construction	<u>1,630,099</u>	<u>-</u>	<u>1,630,099</u>	<u>1,269,079</u>
TOTAL	<u>\$ 40,539,817</u>	<u>\$ 22,765,594</u>	<u>\$ 17,774,223</u>	<u>\$ 18,344,429</u>

Telecommunications plant in service balances together with accumulated depreciation consist of the following at September 30, 2005 and 2004:

	<u>Plant Account</u>	<u>Accumulated Depreciation/ Amortization</u>	<u>2005 Net Balance</u>	<u>2004 Net Balance</u>
General support assets:				
Motor vehicles	\$ 436,780	\$ 305,618	\$ 131,162	\$ 68,985
Buildings	7,344,032	2,906,863	4,437,169	4,574,617
Furniture	231,532	180,718	50,814	63,271
Office equipment	232,073	162,457	69,616	32,522
General purpose computers	836,798	420,496	416,302	473,341
Central office assets:				
Digital switching	7,586,607	5,818,667	1,767,940	2,011,907
Transmission equipment	12,672,983	6,957,441	5,715,542	5,926,292
Cable and wire facilities:				
Buried cable	8,557,247	5,367,320	3,189,927	3,518,701
Deep sea cable	<u>1,011,666</u>	<u>646,014</u>	<u>365,652</u>	<u>405,714</u>
	<u>\$ 38,909,718</u>	<u>\$ 22,765,594</u>	<u>\$ 16,144,124</u>	<u>\$ 17,075,350</u>

Total plant in service additions were \$899,208 and \$1,145,111 at September 30, 2005 and 2004, respectively.

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

Note 5 - Long-Term Debt

Long-term debt is as follows at September 30:

	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>2005</u>	<u>2004</u>
United States Department of Agriculture, Rural Utilities Service (RUS)	5.0% fixed	2010-2027	\$ 15,588,721	\$ 16,294,760
Less current maturities			<u>(749,646)</u>	<u>(712,349)</u>
			<u>\$ 14,839,075</u>	<u>\$ 15,582,411</u>

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.

The terms of the mortgage agreements contain restrictions on the declaration or payment of cash dividends.

Debt payments made during fiscal years ending September 30, 2005 and 2004, were \$706,039 and \$670,495, respectively. No new debt was acquired.

At September 30, 2005, NTA had \$1,079,980 in unadvanced authorized loan funds available for upgrading facilities and new construction.

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

Note 5 - Long-Term Debt (Continued)

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

	Year ended	
	September 30, 2005	
	Principal	Interest
2006	\$ 749,646	\$ 762,283
2007	787,998	723,929
2008	828,314	683,614
2009	870,692	641,236
2010	784,785	597,502
2011-2015	3,087,306	2,527,722
2016-2020	3,962,121	1,652,907
2021-2025	4,388,153	540,300
2026-2027	129,706	4,821
	<u>\$ 15,588,721</u>	<u>\$ 8,134,314</u>

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

	Balance at		Amount Due in One Year
	September 30, 2004	Additons	
RUS	<u>\$ 16,294,760</u>	<u>\$ -</u>	<u>\$ (706,039)</u>
			<u>\$ 15,588,721</u>

Note 6 - 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 3% of the participant's base salary for the plan year subject to deduction for taxes. During 2003, the Plan 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 assets are held by Counsel Trust. NTA contributed \$28,491 and \$30,445 for the years ended September 30, 2005 and 2004, respectively.

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)
NOTES TO FINANCIAL STATEMENTS

Note 7 - 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. Revenues and expenses for the years ended September 30, 2005 and 2004, were as follows:

	2005	2004
Revenues		
Air Marshall Islands, Inc.	\$ 80,481	\$ 79,460
Kwajalein Atoll Development Authority	720	31,492
Marshall Islands Social Security Administration	29,256	23,916
Majuro Resort, Inc.	93,919	88,972
RepMar and other	804,082	944,487
	\$ 1,008,458	\$ 1,168,327
Expenses		
Air Marshall Islands, Inc.	\$ 1,638	\$ 11,414
Kwajalein Atoll Development Authority	1,858	1,857
Marshall Islands Social Security Administration	160,585	147,939
RepMar and other	495,715	222,265
	\$ 659,796	\$ 383,475
	2005	2004
Current receivables		
Air Marshall Islands, Inc.	\$ 19,551	\$ 10,716
Kwajalein Atoll Development Authority	2,343	1,623
Marshall Islands Social Security Administration	2,537	1,704
Majuro Resort, Inc.	28,228	29,916
RepMar and other	281,719	294,330
	\$ 334,378	\$ 338,289

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

Note 7 - Related Party Transactions (Continued)

	<u>2005</u>	<u>2004</u>
Current payables		
Air Marshall Islands, Inc.	\$ 103	\$ -
Marshall Islands Social Security Administration	69,854	76,373
RepMar and other	<u>53,315</u>	<u>36,817</u>
	<u>\$ 123,272</u>	<u>\$ 113,190</u>

NTA has deposit accounts with a financial institution, related through common ownership, of \$1,459,566 and \$1,353,244, as of September 30, 2005 and 2004, respectively.

Note 8 - Lease Agreements

NTA has long-term commitments for several ground leases and satellite circuit leases. Leases are both cancelable and noncancelable operating leases.

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, 2005.

2006	\$ 560,870
2007	560,870
2008	483,605
2009	402,290
2010-2014	1,654,440
2015-2019	371,554
2020-2024	107,605
2025-2026	<u>43,042</u>
	<u>\$ 4,184,276</u>

Total lease payments under the above operating leases for the years ended September 30, 2005 and 2004, were approximately \$452,385 and \$529,327, respectively.

MARSHALL ISLANDS NATIONAL TELECOMMUNICATIONS AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

Note 9 - 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 10 - Contracts

NTA has outstanding contracts for construction programs at September 30, 2005 and 2004. The amounts unpaid against these commitments were approximately \$320,191 and \$190,819, respectively.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of Marshall Islands National Telecommunications Authority, a component unit of the Republic of Marshall Islands, as of and for the years ended September 30, 2005 and 2004, and have issued our report thereon dated November 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit we considered Marshall Islands National Telecommunications Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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*.

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

MOSS ADAMS LLP

Spokane, Washington
November 18, 2005

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

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

We have audited the financial statements of Marshall Islands National Telecommunications Authority, a component unit of the Republic of Marshall Islands, for the year ended September 30, 2005, and have issued our report thereon dated November 18, 2005. 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 of the financial statements of Marshall Islands National Telecommunications Authority for the year ended September 30, 2005, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

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(d)(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 compliance and on internal control over financial reporting, all dated November 18, 2005) or summary of recommendations (other than the audit fieldwork exit conference) related to our audit have been furnished to management.

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

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

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

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

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

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

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement, or lease between the borrower and an affiliate for the year ended September 30, 2005, 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(d)(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 RUS Form 479 to the RUS:
 - Agreed amounts reported in Form 479 to Marshall Islands National Telecommunications Authority's records as of and for the twelve months ended December 31, 2004.

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

- The borrower has obtained written approval of the RUS to enter into any contract, agreement, or lease with an affiliate as defined in §1773.33(e)(2)(i); and
- The borrower has submitted its Form 479 to the RUS and the Form 479, *Financial and Statistical Report* as of and for the twelve months ended of December 31, 2004, represented by the borrower as having been submitted to RUS, is in agreement with the Marshall Islands National Telecommunications Authority's audited records in all material respects, appears reasonable based upon the audit procedures performed.

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 that the Authority failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33(c)(1);
- The clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- The approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR 1773.33(c)(5); and
- The disclosure of material related party transactions in accordance with Statement of Financial Accounting Standards No. 57, *Related Party Transactions*, for the year ended September 30, 2005, 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. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

MOSS ADAMS LLP

MOSS ADAMS LLP

Spokane, Washington
November 18, 2005