

**MARSHALL ISLANDS
NATIONAL TELECOMMUNICATIONS AUTHORITY**

**INDEPENDENT AUDITORS'
MANAGEMENT LETTER REPORT**

YEAR ENDED SEPTEMBER 30, 2006

INDEPENDENT AUDITORS' MANAGEMENT LETTER REPORT

Chairman
Board of Directors
Marshall Islands National Telecommunications Authority:

We have audited the financial statements of the Marshall Islands National Telecommunications Authority (NTA) for the year ended September 30, 2006, and have issued our report thereon dated November 3, 2006. 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 Part 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 NTA for the year ended September 30, 2006, 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.

Management is responsible for establishing and maintaining internal control over financial reporting. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

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 that we consider to be material weaknesses.

7 CFR Part 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 other additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(2) and related party transactions. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 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 Auditors' Report on the financial statements, our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit Performed in Accordance with *Government Auditing Standards*, and our Independent Auditors' Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program, the Schedule of Expenditures of Federal Awards (all dated November 3, 2006)), or summary of recommendations related to our audit have been furnished to management.

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

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

We noted no matters regarding NTA's internal control over financial reporting 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

Compliance with laws, regulations, contracts, and grant agreements is the responsibility of NTA's management. At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grant agreements. The procedures we performed are summarized as follows:

- No procedures were performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement, or leases between the borrower and an affiliate of NTA for the year ended September 30, 2006 as no such contracts, agreements or leases were so executed.

- . The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2005, represented by the borrower as having been submitted to RUS, is in agreement with NTA's records in all material respects. The borrower has not submitted or prepared a Form 479 as of September 30, 2006. The borrower represents that it will now submit Form 479, including adjustments arising from the September 30, 2006 audit to RUS.

COMMENTS ON OTHER ADDITIONAL MATTERS

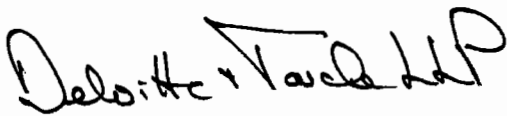
In connection with our audit of the financial statements of NTA, nothing came to our attention that caused us to believe that NTA failed to comply with respect to:

- . The reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- . The clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- . The retirement of plant addressed at 7 CFR Part 1773.33(c)(3) and (4);
- . 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 Part 1773.33(c)(5); and
- . The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards (SFAS) No. 57, "Related Party Transactions," for the year ended September 30, 2006, in the financial statements referred to in the first paragraph of this report addressed at 7 CFR Part 1773.33(f);

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole.

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



November 3, 2006