

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

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**REPORT ON THE AUDIT OF FINANCIAL  
STATEMENTS IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

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**YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

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

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Years Ended September 30, 2007 and 2006

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## INDEPENDENT AUDITORS' REPORT

Chairman  
Board of Directors  
Marshall Islands National Telecommunications Authority:

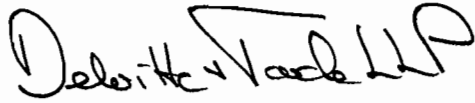
We have audited the accompanying statements of net assets of the Marshall Islands National Telecommunications Authority (the Authority), a component unit of the Republic of the Marshall Islands, as of September 30, 2007 and 2006, and the related statements of revenues and expenses, changes in net assets, and of 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 the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 in the first paragraph present fairly, in all material respects, the financial position of the Authority as of September 30, 2007 and 2006, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2007, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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.

A handwritten signature in black ink, appearing to read "Deloitte & Touche LLP". The signature is stylized and cursive, with a large, prominent initial letter at the beginning.

November 23, 2007

**MARSHALL ISLANDS  
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Management's Discussion and Analysis  
Year Ending September 30, 2007

**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 2007 with fiscal year 2006 and 2005 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 NTA'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.

**Condensed Balance sheet**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Assets:</b>			
Current assets	\$ 6,457,620	\$ 5,623,213	\$ 6,318,987
Plant assets, net	17,069,389	16,101,749	17,774,223
Other noncurrent assets	<u>-</u>	<u>1,481,984</u>	<u>-</u>
Total assets	\$ <u>23,527,018</u>	\$ <u>23,206,946</u>	\$ <u>24,093,210</u>
<b>Liabilities:</b>			
Current liabilities	\$ 1,588,280	\$ 1,492,628	\$ 1,549,885
Noncurrent liabilities	<u>13,249,163</u>	<u>14,068,492</u>	<u>14,839,075</u>
Total liabilities	<u>14,837,443</u>	<u>15,561,120</u>	<u>16,388,960</u>
Invested in capital assets, net of related debt	3,001,619	2,736,436	2,185,502
Unrestricted net assets	<u>5,687,956</u>	<u>4,909,390</u>	<u>5,518,748</u>
Total net assets and stockholders' equity	<u>8,689,575</u>	<u>7,645,826</u>	<u>7,704,250</u>
Total liabilities and net assets and Stockholders' Equity	\$ <u>23,527,018</u>	\$ <u>23,206,946</u>	\$ <u>24,093,210</u>

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The total assets of the Authority increased \$320,000. A review of the balance sheet will reveal that the cash, cash equivalents, investments and inventory increased significantly while telecommunications receivables and allowance decreased moderately. The affiliates receivables remained level; other account receivables and other prepayments also dropped moderately while telecom plant under construction, net property, plant and equipment decreased moderately that produced an overall increase in assets.

The total liabilities of the Authority decreased \$724,000. The primary cause for change is the decrease in the long-term debt, while current account payables and accrued liabilities increase slightly.

The total equity of the Authority is affected by the changes in both assets and liabilities in the amount of \$1,044,000.

This year's budget for capital expenditures was reached and prior year commitments for GSM cellular system upgrades for all outer island sites, the Ebeye switch installation, and the Majuro capacity improvements were completed.

*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 non-operating, and expenses paid by the Authority, operating and non-operating, 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. Non-operating revenues are revenues received for which goods or services are not provided. For example, investment income is non-operating because it is earned without providing telecommunications goods or services.

Condensed Statement of Revenues and Expenses

	<u>Year Ended September 30,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 8,196,395	\$ 6,818,179	\$ 5,785,596
Operating expenses	<u>6,668,106</u>	<u>5,762,652</u>	<u>5,384,728</u>
Operating income	<u>1,528,289</u>	<u>1,055,527</u>	<u>400,868</u>
Non-operating revenues (expenses), net	(273,853)	(677,963)	(486,794)
Capital contribution received	<u>-</u>	<u>160,627</u>	<u>654,852</u>
Net Income	\$ <u>1,254,436</u>	\$ <u>538,191</u>	\$ <u>568,926</u>

The statement of revenues and expenses reflects a positive year with an increase in stockholders' equity at the end of the year. Some highlights of the information presented on the statement of activities are as follows:

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Overall operating revenues increased mainly from a significant increase in cellular services within the basic area network; significant increases in private leased line services and international long distance services coupled with a decrease in carrier settlement revenues within the long distance network; and significant increases in prepaid cards services while internet dial-up services and uncollectible revenues remain level from prior year. Non-regulated cellular telephone revenue increase significantly.

Overall operating expenses increased significantly with a major impact from utilities, equipment service contracts, depreciation, sale expense, and other general and administrative expenses.

Non-operating revenue and expense decreased significantly due to higher gains in stock market investments.

This year's actual operating revenue was significantly higher than budget with local network services, telephone equipment sales, prepaid card services and the uncollectible revenue showing higher than budget results. Actual expenses were significantly lower than budget in all operations. Non-operating expenses were significantly lower than budget due to investment income results.

*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, current cellular services, and the management network received upgrades and expansion through the year.

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

The replaced TDMA system is considered a deferred asset for depreciation and financial reporting purposes.

Additional information on the Authority's capital assets and long-term debt can be found in the footnotes to the financial statements.

*Economic Outlook*

The Authority is aware of a national telecommunications policy developed by the National Government that may have a significant negative affect on its financial strength.

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.

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Statements of Net Assets  
September 30, 2007 and 2006

	2007	2006
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 1,146,743	\$ 1,023,469
Time certificates of deposit	1,380,368	1,162,904
Investments	2,894,105	2,256,522
Telecommunications accounts receivable, less allowance for doubtful accounts of \$599,583 and \$900,000 in 2007 and 2006, respectively	390,009	387,684
Other accounts receivable	253,066	397,289
Accounts receivable, affiliates	167,078	171,336
Material and supplies	206,579	183,615
Other current assets	19,672	40,394
Total current assets	6,457,620	5,623,213
Deferred assets, net	1,297,364	1,481,984
Property, plant and equipment, net	15,772,034	16,101,749
	\$ 23,527,018	\$ 23,206,946
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Current maturities of long-term debt	\$ 818,616	\$ 778,805
Accounts payable, general	303,968	301,450
Accounts payable, affiliates	172,280	146,110
Advance billings and customer deposits	232,447	211,912
Other accrued liabilities	60,969	54,351
Total current liabilities	1,588,280	1,492,628
Long-term debt, net of current portion	13,249,163	14,068,492
Total liabilities	14,837,443	15,561,120
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	3,001,619	2,736,436
Unrestricted:		
Common stock, par value \$10 per share; authorized 360,000 shares; issued 315,770 and 315,044 shares and outstanding 246,302 and 245,576 shares at September 30, 2007 and 2006, respectively	3,600,000	3,600,000
Additional paid in capital	217,655	210,443
Retained earnings	2,564,981	1,793,627
	6,382,636	5,604,070
Less: Treasury stock of 69,468 shares at par value	(694,680)	(694,680)
	5,687,956	4,909,390
Total net assets	8,689,575	7,645,826
	\$ 23,527,018	\$ 23,206,946

See accompanying notes to financial statements.

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Statements of Revenues and Expenses  
Years Ended September 30, 2007 and 2006

	2007	2006
Operating revenues:		
Local network services	\$ 2,253,733	\$ 1,782,880
Long distance network services	3,247,037	3,182,944
Internet services	1,157,831	1,124,714
Miscellaneous	35,465	15,527
Prepaid card revenue	1,191,405	523,833
Nonregulated revenue	288,185	193,919
Uncollectible	22,739	(5,638)
Total operating revenues	8,196,395	6,818,179
Operating expenses:		
Plant specific operations	1,792,024	1,309,326
Plant nonspecific operations	1,059,255	1,017,880
Depreciation and amortization	2,044,555	1,958,039
Customer operations	729,613	620,074
Corporate operations	781,506	645,604
Nonregulated	261,153	211,729
Total operating expenses	6,668,106	5,762,652
Earnings from operations	1,528,289	1,055,527
Nonoperating revenues (expenses):		
Investment earnings	449,982	131,436
Interest expense	(723,835)	(761,929)
Fiber optics feasibility project	-	(497,500)
Grant from governmental agency	-	450,030
Total nonoperating revenues (expenses), net	(273,853)	(677,963)
Capital grants	-	160,627
Increase in net assets	\$ 1,254,436	\$ 538,191

See accompanying notes to financial statements.

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Statements of Changes in Net Assets  
Year Ended September 30, 2007 and 2006

	Invested in Capital Net of Debt	Unrestricted Net Assets					Total
		Common Stock	Additional Paid in	Retained Earnings	Treasury Stock	Subscription Receivable	
Balance at September 30, 2005	\$ 2,185,502	\$ 3,600,000	\$ 206,987	\$ 2,020,331	\$ (308,330)	\$ (240)	\$ 7,704,250
Sale of 324 shares of common stock cash, less stock subscriptions and par value due to RepMar	-	-	3,456	-	-	240	3,696
Purchase of 38,635 shares of common stock at par value from RepMar	-	-	-	-	(386,350)	-	(386,350)
Change in invested in capital assets, net of related debt	550,934	-	-	(550,934)	-	-	-
Cash dividend paid of \$0.65 per share common stock	-	-	-	(213,961)	-	-	(213,961)
Increase in net assets	-	-	-	538,191	-	-	538,191
Balance at September 30, 2006	2,736,436	3,600,000	210,443	1,793,627	(694,680)	-	7,645,826
Sale of 726 shares of common stock cash, less stock subscriptions and par value due to RepMar	-	-	7,212	-	-	-	7,212
Change in invested in capital assets, net of related debt	265,183	-	-	(265,183)	-	-	-
Cash dividend paid of \$0.75 per share common stock	-	-	-	(217,899)	-	-	(217,899)
Increase in net assets	-	-	-	1,254,436	-	-	1,254,436
Balance at September 30, 2007	<u>\$ 3,001,619</u>	<u>\$ 3,600,000</u>	<u>\$ 217,655</u>	<u>\$ 2,564,981</u>	<u>\$ (694,680)</u>	<u>\$ -</u>	<u>\$ 8,689,575</u>

See accompanying notes to financial statements.

**MARSHALL ISLANDS  
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Statements of Cash Flows  
Years Ended September 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Cash received from subscribers, long distance carriers and other customers	\$ 7,422,641	\$ 5,831,299
Cash received from affiliates	940,632	810,293
Cash paid to employees	(1,799,035)	(1,754,111)
Cash paid to suppliers	(2,496,009)	(1,067,714)
Cash paid to affiliates	(295,630)	(901,593)
Net cash provided by operating activities	3,772,599	2,918,174
Cash flows from noncapital financing activities:		
Proceeds from the issuance of common stock	7,212	3,696
Proceeds from grant award	-	450,030
Payments for grant award	-	(497,500)
Dividends paid	(217,899)	(213,961)
Net cash used for noncapital financing activities	(210,687)	(257,735)
Cash flows from capital and related financing activities:		
Additions to property, plant and equipment	(1,530,220)	(1,767,549)
Repayments of long-term debt	(779,518)	(741,424)
Interest paid on long-term debt	(723,835)	(761,929)
Grant received for construction and acquisition of plant	-	160,627
Net cash used for capital and related financing activities	(3,033,573)	(3,110,275)
Cash flows from investing activities:		
(Additions to) withdrawals from investments	(855,047)	166,944
Investment earnings received	449,982	131,436
Net cash (used for) provided by investing activities	(405,065)	298,380
Net change in cash and cash equivalents	123,274	(151,456)
Cash and cash equivalents at beginning of year	1,023,469	1,174,925
Cash and cash equivalents at end of year	\$ 1,146,743	\$ 1,023,469
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	\$ 1,528,289	\$ 1,055,527
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation and amortization	2,044,555	1,958,039
(Increase) decrease in assets:		
Accounts receivable, net	146,156	(153,219)
Material and supplies	(22,964)	167,611
Other current assets	20,722	(23,368)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	35,306	(82,226)
Advance billings and customer deposits	20,535	(4,190)
Net cash provided by operating activities	\$ 3,772,599	\$ 2,918,174

See accompanying notes to financial statements.

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Statements of Cash Flows, Continued  
Years Ended September 30, 2007 and 2006

	2007	2006
Summary disclosure of noncash items:		
During the year ended September 30, 2006 and 2007, NTA dividends acquired 38,635 shares of common stock and withheld from RepMar in lieu of cash for outstanding receivables:		
Accounts receivable, affiliates	\$ (66,069)	\$ (386,350)
Treasury stock	-	386,350
Dividends distribution	66,069	-
	\$ -	\$ -
During the year ended September 30, 2006, NTA transferred to regulatory assets certain telecommunications equipment no longer in service:		
Property, plant and equipment, net	\$ -	\$ (1,481,984)
Deferred assets, net	-	1,481,984
	\$ -	\$ -

See accompanying notes to financial statements.

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Notes to the Financial Statements  
September 30, 2007 and 2006

(1) Summary of 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 telecommunication 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 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.

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.

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(1) Summary of Significant Accounting Policies, Continued

Organization, Continued

Effective August 20, 2002, RepMar contracted to purchase 29,167 treasury shares from NTA for \$350,000. As of September 30, 2002, the shares were not fully paid for and were recorded as subscribed treasury stock; the shares were issued in 2003. On March 8, 2006, 38,635 shares of common stock owned by RepMar were reacquired by NTA into treasury stock to offset RepMar receivables of \$386,350.

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

Basis of Accounting

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for 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 Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989.

The Authority maintains a chart of accounts in accordance with the Uniform System of Accounts for telephone companies of the United States Federal Communications Commission's Rules, and in conformity with accounting principles generally accepted in the United States of America (GAAP). Additionally, the Authority utilizes the accrual basis of accounting, including the application of Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, as the statement 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 has adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No.'s 37 and 38. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- 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, 2007 and 2006.

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(1) Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

- 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 and Time Certificates of Deposit

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by NTA. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified in the statements of net assets.

Investments

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

Accounts Receivable

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

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(1) Summary of Significant Accounting Policies, Continued

Property, Plant and Equipment, Continued

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 5 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. No AFUDC was recorded for the years ended September 30, 2007 and 2006.

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, 2007 and 2006, 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 SFAS No. 71. Under this statement, regulatory assets are deferred expenses that are expected to be recovered through customer rates over some future period. At September 30, 2007 and 2006, these deferred charges consist of a TDMA mobile system, which was removed from service in November 2005. On July 21, 2006, 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, 2007 and 2006, amortization expense relating to telecommunications equipment no longer in service amounted to \$184,620 and \$0, respectively. As of September 30, 2007 and 2006, the net book value relating to deferred assets amounted to \$1,297,364 and \$1,481,984, respectively.

Income Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross revenue tax of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, sales of telecommunication services by public utility companies are exempt from gross revenue tax. Accordingly, NTA is exempt from this tax relating to gross revenue from sales of telecommunication services.

Revenue Recognition and Classification

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

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(1) Summary of Significant Accounting Policies, Continued

Revenue Recognition and Classification, Continued

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 revenues and expenses consist of earnings from investments, interest paid on notes, and grant funds received. Capital grant income represents proceeds from grants for capital assets.

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.

Nonregulated Activities

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.

Management Estimates

The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

During fiscal year 2007, NTA implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The implementation of this pronouncement did not have a material impact on the accompanying 2007 financial statements.

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(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NTA.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NTA.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NTA.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of NTA.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this Statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of NTA.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this Statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of NTA.

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(1) Summary of Significant Accounting Policies, Continued

Reclassifications

Certain 2006 balances have been reclassified to conform to the 2007 financial statement presentation.

(2) Deposits and Investments

GASB Statement 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 Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

The deposit and investment policies of NTA are governed by the Board of Directors. As such, the Board of Directors is authorized to delegate certain responsibilities to third parties. Investment managers have discretion to purchase, sell, or hold the specific securities to meet the objectives set forth in the investment policy.

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

A. Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by NTA or its agent in NTA's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in NTA's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in NTA's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, NTA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in NTA's name. NTA does not have a deposit policy for custodial credit risk.

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(2) Deposits and Investments, Continued

As of September 30, 2007 and 2006, the carrying amount of NTA's total cash and cash equivalents and time certificates of deposit were \$2,527,111 and \$2,186,373, respectively, and the corresponding bank balances were \$2,584,616 and \$2,267,346, respectively. Of the bank balance amounts, \$1,485,019 and \$1,055,967, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007 and 2006, bank deposits in the amount of \$100,000 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 and management believes it is not exposed to any significant credit risk on its deposits.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by NTA or its agent in NTA's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in NTA's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in NTA's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the elements of custodial credit risk in GASB Statement No. 3.

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 U.S. 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, 2007 and 2006, 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.

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(2) Deposits and Investments, Continued

B. Investments, Continued

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 Statement 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, 2007 and 2006, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2007 and 2006, investments at fair value are as follows:

	<u>2007</u>	<u>2006</u>
Other investments:		
Domestic and international equities	\$ 2,741,649	\$ 2,140,998
Money market funds	<u>152,456</u>	<u>115,524</u>
	<u>\$ 2,894,105</u>	<u>\$ 2,256,522</u>

(3) Property, Plant and Equipment

Property, plant and equipment, net of accumulated depreciation, as of September 30, 2007 and 2006, is as follows:

	<u>Estimated Useful Lives</u>	Balance October 1, 2006	<u>Additions</u>	<u>Retirements</u>	Balance September 30, 2007
General support assets:					
Motor vehicles	5 years	\$ 538,712	\$ 129,511	\$ -	\$ 668,223
Buildings	40 years	7,463,998	2,166	-	7,466,164
Furniture	15 years	235,339	-	(17,755)	217,584
Office equipment	6 - 10 years	252,013	26,810	-	278,823
General purpose computers	6 years	951,238	56,506	-	1,007,744
Central office assets:					
Digital switching	10 - 20 years	7,709,613	124,529	-	7,834,142
Transmission equipment	5 - 20 years	12,132,922	1,427,275	-	13,560,197
Cable and wire facilities:					
Buried and deep sea cable	20 - 25 years	<u>9,947,105</u>	<u>89,713</u>	<u>-</u>	<u>10,036,818</u>
		39,230,940	1,856,510	(17,755)	41,069,695
Less accumulated depreciation		<u>(23,455,481)</u>	<u>(1,859,935)</u>	<u>17,755</u>	<u>(25,297,661)</u>
		15,775,459	(3,425)	-	15,772,034
Plant under construction		<u>326,290</u>	<u>839,626</u>	<u>(1,165,916)</u>	<u>-</u>
		<u>\$ 16,101,749</u>	<u>\$ 836,201</u>	<u>\$ (1,165,916)</u>	<u>\$ 15,772,034</u>

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**(3) Property, Plant and Equipment, Continued**

	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2006</u>
General support assets:					
Motor vehicles	5 years	\$ 436,780	\$ 101,932	\$ -	\$ 538,712
Buildings	40 years	7,344,032	119,966	-	7,463,998
Furniture	15 years	231,532	3,807	-	235,339
Office equipment	6 - 10 years	232,073	19,940	-	252,013
General purpose computers	6 years	836,798	114,440	-	951,238
Central office assets:					
Digital switching	10 - 20 years	7,586,607	123,006	-	7,709,613
Transmission equipment	5 - 20 years	12,672,983	2,210,075	(2,750,136)	12,132,922
Cable and wire facilities:					
Buried and deep sea cable	20 - 25 years	<u>9,568,913</u>	<u>378,192</u>	-	<u>9,947,105</u>
		38,909,718	3,071,358	(2,750,136)	39,230,940
Less accumulated depreciation		<u>(22,765,594)</u>	<u>(1,958,039)</u>	<u>1,268,152</u>	<u>(23,455,481)</u>
		16,144,124	1,113,319	(1,481,984)	15,775,459
Plant under construction		<u>1,630,099</u>	<u>1,143,631</u>	<u>(2,447,440)</u>	<u>326,290</u>
		<u>\$ 17,774,223</u>	<u>\$ 2,256,950</u>	<u>\$ (3,929,424)</u>	<u>\$ 16,101,749</u>

**(4) Long-Term Debt**

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2007</u>	<u>2006</u>
United States Department of Agriculture, Rural Utilities Service (RUS)	5.0% fixed	2010-2027	\$ 14,067,779	\$ 14,847,297
Less: current portion			<u>818,616</u>	<u>778,805</u>
			<u>\$ 13,249,163</u>	<u>\$ 14,068,492</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.

On June 16, 2006, the unadvanced amount of the RUS note (\$1,079,980) was requested to be rescinded and was approved by RUS on May 31, 2007.

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(4) Long-Term Debt, Continued

Future minimum principal and interest payments on notes payable for subsequent years ending September 30, are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 818,616	\$ 684,738	\$ 1,503,354
2009	860,642	642,712	1,503,354
2010	803,079	599,106	1,402,185
2011	553,064	566,583	1,119,647
2012	581,360	538,287	1,119,647
2013 - 2017	3,384,578	2,213,658	5,598,236
2018 - 2022	4,343,628	1,254,608	5,598,236
2023 - 2027	<u>2,722,812</u>	<u>194,770</u>	<u>2,917,582</u>
	<u>\$ 14,067,779</u>	<u>\$ 6,694,462</u>	<u>\$ 20,762,241</u>

A summary of changes in long-term liabilities during fiscal years 2007 and 2006 is as follows:

	<u>Balance October 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2007</u>	<u>Due Within One Year</u>
Notes payable:					
RUS	\$ <u>14,847,297</u>	\$ _____	\$ <u>(779,518)</u>	\$ <u>14,067,779</u>	\$ <u>818,616</u>
	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2006</u>	<u>Due Within One Year</u>
Notes payable:					
RUS	\$ <u>15,588,721</u>	\$ _____	\$ <u>(741,424)</u>	\$ <u>14,847,297</u>	\$ <u>778,805</u>

(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 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. NTA contributed \$40,720 and \$27,907 for the years ended September 30, 2007 and 2006, respectively.

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**(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. Revenues and expenses for the years ended September 30, 2007 and 2006, and related year-end receivables and payables were as follows:

	<u>2007</u>	<u>2006</u>
Revenues:		
Air Marshall Islands, Inc.	\$ 68,780	\$ 55,465
Marshall Islands Social Security Administration	30,010	27,297
Marshalls Energy Company, Inc.	64,248	47,193
Majuro Resort, Inc.	111,499	83,411
RepMar and others	<u>661,837</u>	<u>769,299</u>
	<u>\$ 936,374</u>	<u>\$ 982,665</u>
Expenses:		
Air Marshall Islands, Inc.	\$ 9,780	\$ 19,888
Marshall Islands Social Security Administration	311,239	310,822
Marshalls Energy Company, Inc.	366,620	286,386
RepMar and others	<u>143,410</u>	<u>128,117</u>
	<u>\$ 831,049</u>	<u>\$ 745,213</u>
Current receivables:		
Air Marshall Islands, Inc.	\$ 11,827	\$ 9,689
Marshall Islands Social Security Administration	5,100	2,437
Marshalls Energy Company, Inc.	4,733	8,918
Majuro Resort, Inc.	22,425	15,582
RepMar and others	<u>122,993</u>	<u>134,710</u>
	<u>\$ 167,078</u>	<u>\$ 171,336</u>
Current payables:		
Air Marshall Islands, Inc.	\$ -	\$ 879
Marshall Islands Social Security Administration	74,549	70,467
Marshalls Energy Company, Inc.	31,406	28,687
RepMar and others	<u>66,325</u>	<u>46,077</u>
	<u>\$ 172,280</u>	<u>\$ 146,110</u>

NTA has uninsured deposit accounts with a financial institution, related through common ownership, of \$1,099,597 and \$1,211,379 as of September 30, 2007 and 2006, respectively.

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(7) Commitments and Contingencies

Leases

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

The approximate future minimum annual lease payments payable by NTA are as follows:

<u>Year ending</u> <u>September 30</u>	<u>Total</u>
2008	\$ 462,236
2009	443,426
2010	436,481
2011	330,841
2012	220,230
2013-2017	577,434
2018-2022	30,517
2023-2027	<u>13,874</u>
	\$ <u>2,515,039</u>

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. Settlements have not exceeded insurance coverage during the last three years. There have been no significant reductions in coverage.

**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**

Chairman  
Board of Directors  
Marshall Islands National Telecommunications Authority:

We have audited the financial statements of the Marshall Islands National Telecommunications Authority (the Authority), as of and for the year ended September 30, 2007, and have issued our report thereon dated November 23, 2007. 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 the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

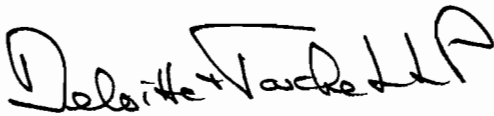
A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of the Authority, federal awarding agencies, the Rural Utilities Service, supplemental lenders, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Deloitte & Touche LLP", is written over a faint, light-colored signature line.

November 23, 2007