

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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

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Years Ended September 30, 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

Chairman
Board of Directors
Marshall Islands National Telecommunications Authority:

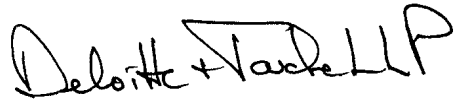
We have audited the accompanying statements of net assets of the Marshall Islands National Telecommunications Authority (the Authority), a component unit of the Republic of the Marshall Islands, as of September 30, 2008 and 2007, and the related statements of revenues and expenses, changes in net assets, 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, 2008 and 2007, 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 December 2, 2008, 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 that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

December 2, 2008

**MARSHALL ISLANDS
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Management's Discussion and Analysis
Year Ending September 30, 2008

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 2008 with fiscal years 2007 and 2006 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 operations 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>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Current assets	\$ 4,645,676	\$ 6,457,620	\$ 5,623,213
Plant assets, net	17,011,518	15,772,034	16,101,749
Other noncurrent assets	<u>1,120,712</u>	<u>1,297,364</u>	<u>1,481,984</u>
Total assets	\$ <u>22,777,906</u>	\$ <u>23,527,018</u>	\$ <u>23,206,946</u>
Liabilities:			
Current liabilities	\$ 2,011,460	\$ 1,588,280	\$ 1,492,628
Noncurrent liabilities	<u>12,388,443</u>	<u>13,249,163</u>	<u>14,068,492</u>
Total liabilities	<u>14,399,903</u>	<u>14,837,443</u>	<u>15,561,120</u>
Invested in capital assets, net of related debt	4,883,215	3,001,619	2,736,436
Unrestricted net assets	<u>3,494,788</u>	<u>5,687,956</u>	<u>4,909,390</u>
Total net assets and stockholders' equity	<u>8,378,003</u>	<u>8,689,575</u>	<u>7,645,826</u>
Total liabilities and net assets and stockholders' equity	\$ <u>22,777,906</u>	\$ <u>23,527,018</u>	\$ <u>23,206,946</u>

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The total assets of the Authority decreased by \$749,000 compared with prior year. A review of the balance sheet reveals that the cash, cash equivalents, investments and inventory decreased significantly while telecommunications receivables, net of allowance for doubtful accounts, increased slightly. Receivables from affiliates remained slightly higher, other accounts receivable dropped moderately, and prepayments and telecom plant under construction increased significantly while net property, plant and equipment decreased moderately resulting in an overall decrease in total assets.

The total liabilities of the Authority decreased by \$438,000 compared with prior year. The primary cause for change is the decrease in long-term debt offset by a moderate increase in current account payables and accrued liabilities.

The total equity of the Authority is affected by the changes in both assets and liabilities in the amount of \$311,000.

This year's budget for capital expenditures was not reached with the new wireless TV project under construction; and the replacement of the HQs main generator, the upgrade of the central air-conditioner, and installation of an UPS power supply not completed. All other equipment, facilities, and 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 incurred 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 generated from the provision of telecommunications goods and services to various customers. Operating expenses are those expenses incurred 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>Years Ended September 30,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 7,964,259	\$ 8,196,395	\$ 6,818,179
Operating expenses	<u>6,876,476</u>	<u>6,668,106</u>	<u>5,762,652</u>
Operating income	<u>1,087,783</u>	<u>1,528,289</u>	<u>1,055,527</u>
Non-operating revenues and expenses, net	(1,353,919)	(273,853)	(677,963)
Capital contributions	<u>-</u>	<u>-</u>	<u>160,627</u>
Change in net assets	\$ <u>(266,136)</u>	\$ <u>1,254,436</u>	\$ <u>538,191</u>

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The statement of revenues and expenses reflects a negative year with a decrease in stockholders' equity at the end of the year. Some highlights of the information presented within the statement of activities are as follows:

Overall operating revenues decreased moderately by \$232,000 compared with prior year due to a significant decrease in miscellaneous revenues, telephone and cellular sales, internet usage revenues and prepaid card revenues offset by an increase in basic area network services, private leased line services and international long distance services while carrier settlement revenues remained level.

Overall operating expenses increased moderately by \$208,000 compared with prior year with a major impact from utilities, equipment support contracts, circuit rental expenses, telephone and cellular sale expense, and other general and administrative expenses.

Non-operating revenues, represented by investment income, decreased significantly by \$1,122,000 compared with prior year due to higher losses in stock market investments, which resulted in an overall net investment loss for 2008. Non-operating expenses, represented by interest expense, remained level.

This year's actual operating revenues were significantly lower than budget with all revenue categories showing lower than budget results with the exception of private leased lines services. Actual expenses were significantly lower than budget with the exception of land and buildings expenses (fuel costs). Non-operating revenues were significantly lower than budget due to investment losses.

Capital Asset and Debt Administration

Several construction projects and equipment purchases were completed this fiscal year as part of the Authority's maintenance and improvements program. Buildings, remote site facilities, current cellular services, and the management network received upgrades and expansion through the year.

Debt payments made during 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 accompanying 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. Regulations and ownership discussions among the leaders has not produced any significant changes in policies, regulations or industry management at this time. The Authority is in the process of acquiring an undersea fiber cable loan to improve communication connectivity for the Republic of the Marshall Islands to the world.

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, 2008 and 2007

	2008	2007
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 471,303	\$ 1,146,743
Time certificates of deposit	1,034,886	1,380,368
Investments	2,169,167	2,894,105
Telecommunications accounts receivable, less allowance for doubtful accounts of \$410,000 and \$599,583 in 2008 and 2007, respectively	445,439	390,009
Other accounts receivable	121,038	253,066
Accounts receivable, affiliates	189,288	167,078
Material and supplies	214,080	206,579
Other current assets	475	19,672
Total current assets	4,645,676	6,457,620
Deferred assets, net	1,120,712	1,297,364
Property, plant and equipment, net	17,011,518	15,772,034
	\$ 22,777,906	\$ 23,527,018
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Current maturities of long-term debt	\$ 860,572	\$ 818,616
Accounts payable, general	92,175	127,322
Accounts payable, construction	550,000	176,646
Accounts payable, affiliates	182,375	172,280
Advance billings and customer deposits	262,089	232,447
Other accrued liabilities	64,249	60,969
Total current liabilities	2,011,460	1,588,280
Long-term debt, net of current portion	12,388,443	13,249,163
Total liabilities	14,399,903	14,837,443
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	4,883,215	3,001,619
Unrestricted:		
Common stock, par value \$10 per share; authorized 360,000 shares; issued 316,135 and 315,770 shares and outstanding 266,667 and 246,302 shares at September 30, 2008 and 2007, respectively	3,600,000	3,600,000
Additional paid in capital	262,751	217,655
Retained earnings	126,717	2,564,981
	3,989,468	6,382,636
Less: Treasury stock of 49,468 and 69,468 shares in 2008 and 2007, respectively, both at par value	(494,680)	(694,680)
	3,494,788	5,687,956
Total net assets	8,378,003	8,689,575
	\$ 22,777,906	\$ 23,527,018

See accompanying notes to financial statements.

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Statements of Revenues and Expenses
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Long distance network services	\$ 3,347,768	\$ 3,247,037
Local network services	2,493,577	2,253,733
Prepaid card revenue	1,122,772	1,191,405
Internet services	757,641	1,157,831
Miscellaneous	17,384	35,465
Nonregulated revenue	139,406	288,185
Uncollectible	85,711	22,739
Total operating revenues	<u>7,964,259</u>	<u>8,196,395</u>
Operating expenses:		
Plant specific operations	1,978,310	1,792,024
Plant nonspecific operations	1,308,658	1,059,255
Depreciation and amortization	1,932,169	2,044,555
Corporate operations	785,413	781,506
Customer operations	750,256	729,613
Nonregulated	121,670	261,153
Total operating expenses	<u>6,876,476</u>	<u>6,668,106</u>
Earnings from operations	<u>1,087,783</u>	<u>1,528,289</u>
Nonoperating revenues (expenses):		
Interest expense	<u>(682,160)</u>	<u>(723,835)</u>
Change in net assets before investment (loss) income	405,623	804,454
Investment (loss) income	<u>(671,759)</u>	<u>449,982</u>
Change in net assets	<u>\$ (266,136)</u>	<u>\$ 1,254,436</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS
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Statements of Changes in Net Assets
Year Ended September 30, 2008 and 2007

	Invested in Capital Assets, Net of Related Debt	Unrestricted Net Assets				Total
		Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock	
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 of common stock	-	-	-	(217,899)	-	(217,899)
Change in net assets	-	-	-	1,254,436	-	1,254,436
Balance at September 30, 2007	3,001,619	3,600,000	217,655	2,564,981	(694,680)	8,689,575
Sale of 365 shares of common stock cash, less stock subscriptions and par value due to RepMar	-	-	5,096	-	-	5,096
Sale of 20,000 shares of treasury stock at \$12 per share	-	-	40,000	-	200,000	240,000
Change in invested in capital assets, net of related debt	1,881,596	-	-	(1,881,596)	-	-
Cash dividend paid of \$1.00 per share of common stock	-	-	-	(290,532)	-	(290,532)
Change in net assets	-	-	-	(266,136)	-	(266,136)
Balance at September 30, 2008	<u>\$ 4,883,215</u>	<u>\$ 3,600,000</u>	<u>\$ 262,751</u>	<u>\$ 126,717</u>	<u>\$ (494,680)</u>	<u>\$ 8,378,003</u>

See accompanying notes to financial statements.

**MARSHALL ISLANDS
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Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from subscribers, long distance carriers and other customers	\$ 6,896,934	\$ 7,212,352
Cash received from affiliates	1,170,552	1,150,921
Cash paid to employees	(1,958,755)	(1,799,035)
Cash paid to suppliers	(1,619,249)	(1,986,760)
Cash paid to affiliates	(1,022,222)	(804,879)
Net cash provided by operating activities	<u>3,467,260</u>	<u>3,772,599</u>
Cash flows from noncapital financing activities:		
Proceeds from the issuance of common stock	245,096	7,212
Dividends paid	(290,532)	(217,899)
Net cash used for noncapital financing activities	<u>(45,436)</u>	<u>(210,687)</u>
Cash flows from capital and related financing activities:		
Additions to property, plant and equipment	(2,995,001)	(1,530,220)
Repayments of long-term debt	(818,764)	(779,518)
Interest paid on long-term debt	(682,160)	(723,835)
Net cash used for capital and related financing activities	<u>(4,495,925)</u>	<u>(3,033,573)</u>
Cash flows from investing activities:		
Net purchases, sales and maturities of investments	(113,207)	(264,407)
Withdrawals from (additions to) time certificates of deposit	400,000	(240,000)
Interest and dividends received	111,868	99,342
Net cash provided by (used for) investing activities	<u>398,661</u>	<u>(405,065)</u>
Net change in cash and cash equivalents	(675,440)	123,274
Cash and cash equivalents at beginning of year	1,146,743	1,023,469
Cash and cash equivalents at end of year	<u>\$ 471,303</u>	<u>\$ 1,146,743</u>
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	\$ 1,087,783	\$ 1,528,289
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation and amortization	1,932,169	2,044,555
(Increase) decrease in assets:		
Accounts receivable	54,388	146,156
Material and supplies	(7,501)	(22,964)
Other current assets	19,197	20,722
Increase in liabilities:		
Accounts payable and other accrued liabilities	351,582	35,306
Advance billings and customer deposits	29,642	20,535
Net cash provided by operating activities	<u>\$ 3,467,260</u>	<u>\$ 3,772,599</u>

See accompanying notes to financial statements.

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Statements of Cash Flows, Continued
Years Ended September 30, 2008 and 2007

	2008	2007
Summary disclosure of noncash items:		
During the year ended September 30, 2007, NTA acquired 38,635 shares of common stock and withheld dividends from RepMar in lieu of cash for outstanding receivables:		
Accounts receivable, affiliates	\$ -	\$ (66,069)
Dividends distribution	-	66,069
	\$ -	\$ -

See accompanying notes to financial statements.

**MARSHALL ISLANDS
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Notes to the Financial Statements
September 30, 2008 and 2007

(1) Summary of Significant Accounting Policies

Nature of Operations

Marshall Islands National Telecommunications Authority (NTA or the Authority), a component unit of the Government of the Republic of Marshall Islands (RepMar), 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 Marshall Islands were administered under RepMar's Ministry of Transportation and Communications.

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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Notes to the Financial Statements
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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. On February 28, 2008, Bank of Marshall Islands purchased 20,000 treasury shares from NTA for \$240,000.

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, which 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.

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Notes to the Financial Statements
September 30, 2008 and 2007

(1) Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

The Authority has no restricted net assets at September 30, 2008 and 2007.

- 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 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.

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Notes to the Financial Statements
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(1) Summary of Significant Accounting Policies, Continued

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 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, 2008 and 2007.

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, 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007, amortization expense relating to telecommunications equipment no longer in service amounted to \$176,652 and \$184,620, respectively. As of September 30, 2008 and 2007, the net book value relating to deferred assets amounted to \$1,120,712 and \$1,297,364, respectively.

Income Taxes

Corporate profits are not subject to income tax in the Marshall Islands. RepMar 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.

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Notes to the Financial Statements
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(1) Summary of Significant Accounting Policies, Continued

Revenue Recognition and Classification

Billings for local service revenue and basic internet service are rendered monthly in advance. Advance billings are recorded as a liability and are subsequently transferred to income in the period earned. Prepaid card revenues are recorded when the cards are sold.

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.

Non-operating revenues and expenses consist of investment earnings, interest paid on long-term debt, and grant funds received.

Regulatory Authority

The regulatory authority of NTA is the Cabinet of RepMar, which imposes stipulations on rates for telephone services as defined in Public Law 1990-105.

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.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements in order to conform to the 2008 presentation.

New Accounting Standards

During fiscal year 2008, NTA implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments and GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. 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, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

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Notes to the Financial Statements
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(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 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, 2007. 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 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.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NTA.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. 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.

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.

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(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.

As of September 30, 2008 and 2007, the carrying amount of NTA's total cash and cash equivalents and time certificates of deposit were \$1,506,189 and \$2,527,111, respectively, and the corresponding bank balances were \$1,570,095 and \$2,584,616, respectively. Of the bank balance amounts, \$1,134,886 and \$1,485,019, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008 and 2007, 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.

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Notes to the Financial Statements
September 30, 2008 and 2007

(2) Deposits and Investments, Continued

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, 2008 and 2007, NTA's investments are held in the name of NTA and are administered by investment managers subject to Securities Investor Protection Corporation insurance in accordance with NTA's investment policy.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. NTA's investment policy limits investment maturities to one year to manage its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB 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, 2008 and 2007, there were no investments in any one issuer that exceeded 5% of total investments.

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(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2008 and 2007, investments at fair value are as follows:

	<u>2008</u>	<u>2007</u>
Other investments:		
Domestic and international equities	\$ 2,015,079	\$ 2,741,649
Money market funds	<u>154,088</u>	<u>152,456</u>
	<u>\$ 2,169,167</u>	<u>\$ 2,894,105</u>

(3) Property, Plant and Equipment

Capital asset activities of the Authority for the years ended September 30, 2008 and 2007 are as follows:

	Estimated Useful Lives	Balance October 1, 2007	Additions	Retirements	Balance September 30, 2008
General support assets:					
Motor vehicles	5 years	\$ 668,223	\$ 376,877	\$ -	\$ 1,045,100
Buildings	40 years	7,466,164	114,192	-	7,580,356
Furniture	15 years	217,584	-	-	217,584
Office equipment	6 - 10 years	278,823	81,047	-	359,870
General purpose computers	6 years	1,007,744	106,240	-	1,113,984
Central office assets:					
Digital switching	10 - 20 years	7,834,142	172,076	-	8,006,218
Transmission equipment	5 - 20 years	13,560,197	485,486	-	14,045,683
Cable and wire facilities:					
Buried and deep sea cable	20 - 25 years	<u>10,036,818</u>	<u>123,928</u>	-	<u>10,160,746</u>
		41,069,695	1,459,846	-	42,529,541
Less accumulated depreciation		<u>(25,297,661)</u>	<u>(1,755,517)</u>	-	<u>(27,053,178)</u>
		15,772,034	295,671	-	15,476,363
Plant under construction		-	<u>1,535,155</u>	-	<u>1,535,155</u>
		<u>\$ 15,772,034</u>	<u>\$ 1,318,204</u>	<u>\$ -</u>	<u>\$ 17,011,518</u>

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Notes to the Financial Statements
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(3) Property, Plant and Equipment, Continued

	<u>Estimated</u> <u>Useful Lives</u>	Balance October <u>1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2007</u>
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>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>

(4) Long-Term Debt

	<u>Interest Rate</u>	<u>Maturity</u> <u>Date</u>	<u>2008</u>	<u>2007</u>
United States Department of Agriculture, Rural Utilities Service (RUS)	5.0% fixed	2010-2027	\$ 13,249,015	\$ 14,067,779
Less: current portion			<u>860,572</u>	<u>818,616</u>
			<u>\$ 12,388,443</u>	<u>\$ 13,249,163</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>
2009	\$ 860,572	\$ 642,712	\$ 1,503,284
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	611,103	508,544	1,119,647
2014 - 2018	3,557,740	2,040,496	5,598,236
2019 - 2023	4,565,856	1,032,380	5,598,236
2024 - 2027	<u>1,716,321</u>	<u>81,616</u>	<u>1,794,937</u>
	<u>\$ 13,249,015</u>	<u>\$ 6,009,724</u>	<u>\$ 19,258,739</u>

A summary of changes in long-term liabilities for the years ended September 30, 2008 and 2007 are as follows:

	Balance October 1, <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2008	Due Within <u>One Year</u>
Notes payable:					
RUS	\$ <u>14,067,779</u>	\$ <u> -</u>	\$ <u>(818,764)</u>	\$ <u>13,249,015</u>	\$ <u>860,572</u>
	Balance October 1, <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2007	Due Within <u>One Year</u>
Notes payable:					
RUS	\$ <u>14,847,297</u>	\$ <u> -</u>	\$ <u>(779,518)</u>	\$ <u>14,067,779</u>	\$ <u>818,616</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 5% 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 \$50,408 and \$40,720 for the years ended September 30, 2008 and 2007, 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, 2008 and 2007, and related year-end receivables and payables were as follows:

	<u>2008</u>	<u>2007</u>
Revenues:		
Air Marshall Islands, Inc.	\$ 54,522	\$ 68,780
Marshall Islands Social Security Administration	29,445	30,010
Marshalls Energy Company, Inc.	57,444	64,248
Majuro Resort, Inc.	99,157	111,499
Bank of Marshall Islands	97,937	76,768
RepMar and others	<u>854,257</u>	<u>795,358</u>
	<u>\$ 1,192,762</u>	<u>\$ 1,146,663</u>
Expenses:		
Air Marshall Islands, Inc.	\$ 132	\$ 9,780
Marshall Islands Social Security Administration	341,852	311,239
Marshalls Energy Company, Inc.	546,775	366,620
RepMar and others	<u>143,558</u>	<u>143,410</u>
	<u>\$ 1,032,317</u>	<u>\$ 831,049</u>
Current receivables:		
Air Marshall Islands, Inc.	\$ 12,871	\$ 11,827
Marshall Islands Social Security Administration	6,666	5,100
Marshalls Energy Company, Inc.	6,209	4,733
Majuro Resort, Inc.	18,558	22,425
Bank of Marshall Islands	15,892	5,595
RepMar and others	<u>144,984</u>	<u>117,398</u>
	<u>\$ 189,288</u>	<u>\$ 167,078</u>
Current payables:		
Marshall Islands Social Security Administration	\$ 80,931	\$ 74,549
Marshalls Energy Company, Inc.	60,998	31,406
RepMar and others	<u>40,446</u>	<u>66,325</u>
	<u>\$ 182,375</u>	<u>\$ 172,280</u>

NTA has uninsured deposit accounts with a financial institution, related through common ownership, of \$1,166,690 and \$1,099,597 as of September 30, 2008 and 2007, respectively.

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Notes to the Financial Statements
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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 non-cancelable operating leases.

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

<u>Year ending September 30</u>	<u>Total</u>
2009	\$ 1,085,319
2010	1,161,583
2011	351,580
2012	199,864
2013	173,224
2014 - 2018	425,413
2019 - 2023	131,508
2024 - 2027	15,663
2029 - 2030	<u>4,229</u>
	<u>\$ 3,548,383</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, 2008, and have issued our report thereon dated December 2, 2008. 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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 entity's internal control.

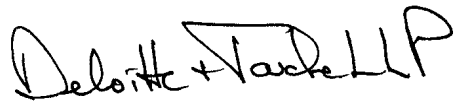
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated December 2, 2008.

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 that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

December 2, 2008