MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Postal Service Authority:

We have audited the accompanying statements of net assets of the Marshall Islands Postal Service Authority (the Authority), a component unit of the Republic of the Marshall Islands, as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets 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, 2011 and 2010, 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 7 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The accompanying Combining Schedule of Operating Income (Loss) by Station for the year ended September 30, 2011 (page 19) is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. This schedule is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements for the year ended September 30, 2011 and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2012, 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 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.

Deloitte + Touche LLP

January 25, 2012

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2011 and 2010

As management of the Marshall Islands Postal Service Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ending September 30, 2011. We encourage the readers to consider the information presented here in conjunction with additional information that we have furnished in the Authority's financial statements, which follow this narrative.

The Authority was created by the Postal Service Act of 1983 for the purpose of establishing an effective and efficient postal service for the Republic. The operation of the Authority were accounted for as a separate fund within the Government of the Republic of the Marshall Islands (RepMar) Ministry of Finance. Effective October 1, 2008, the Authority established a separate bank account outside of RepMar's Treasury for the purpose of receiving and disbursing funds in accordance with the Postal Service Fund (Amendment) Act of 2007. Accordingly, the accompanying Management's Discussion and Analysis only pertains to the operations of the Authority once the operation was separated from RepMar's Ministry of Finance.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities at the close of business for fiscal year 2011 by $77,570 (Net Assets) increasing by $27,781 from $49,789 as the close of the prior year fiscal year end.

- As of the close of business on September 30, 2011, the Authority earned $458,304 in revenues. Most of these were derived from revenues generated from stamp sales and postal box rentals, which account for 62% and 14% (or 76%) of the total revenue earned during the year. On the other hand, the Authority incurred various expenses, which are directly and indirectly related to the provision of domestic and international mail services, and which totaled $431,402. These expenses were funded by the operating revenues generated by the Authority.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of four (4) components: 1) Statement of Net Assets, 2) Statement of Revenues, Expenses and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

The Authority, like other government agencies, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The Authority is comprised of a single proprietary fund. A proprietary fund operates by charging its customer a fee for the service provided (operating revenue), like a typical business enterprise. A proprietary fund may also receive revenue from government agencies as grants or support (non-operating revenue). These financial statements are designed to provide readers with a broad overview of the Authority's finances, in a matter similar to a private-sector business.

The Statements of Net Assets present information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The statement of net assets can be found on page 8.

The Statements of Revenues, Expenses, and Changes in Net Assets present information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. accounts receivable and accounts payable). The statement of revenues, expenses, and changes in net assets can be found on page 9.

The Statements of Cash Flows present information showing how the Authority's cash increased or decreased during the year. Cash is received and used in three ways: operating activities, capital and non-capital financing activities, and investing activities. The statement of cash flows can be found on page 10.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 11 through 18.

Other information has been included with the basic financial statements for the purposes of additional analysis. The additional information can be found on page 19.

Financial Analysis

Net Assets

Net assets may serve over time as a useful indicator of a governmental entity's financial position. The Summary Statement of Net Assets below was prepared to give insight on the Authority's resources. liabilities, and net assets. At the close of business on September 30, 2011, the Authority's assets exceeded its liabilities by $77,570, which is comprised of restricted net assets of $76,861 that are invested in capital assets with the remainder of $709. Accordingly, this means that there are unrestricted assets available to be used to finance the day-to-day operations of the Authority.

Summary Statement of Net Assets

	2011	2010	2009
Assets:			
Current assets	$ 185,320	$ 152,806	$ 112,233
Capital and other assets	76,861	36,158	41,689
Total assets	$ 262,181	$ 188,964	$ 153,922
Liabilities:			
Current liabilities	$ 173,751	$ 128,271	$ 116,402
Noncurrent liabilities	10,860	10,904	14,702
	184,611	139,175	131,104
Net Assets:			
Invested in capital assets	76,861	36,158	41,689
Unrestricted	709	13,631	(18,871)
Total net assets	77,570	49,789	22,818
	$ 262,181	$ 188,964	$ 153,922

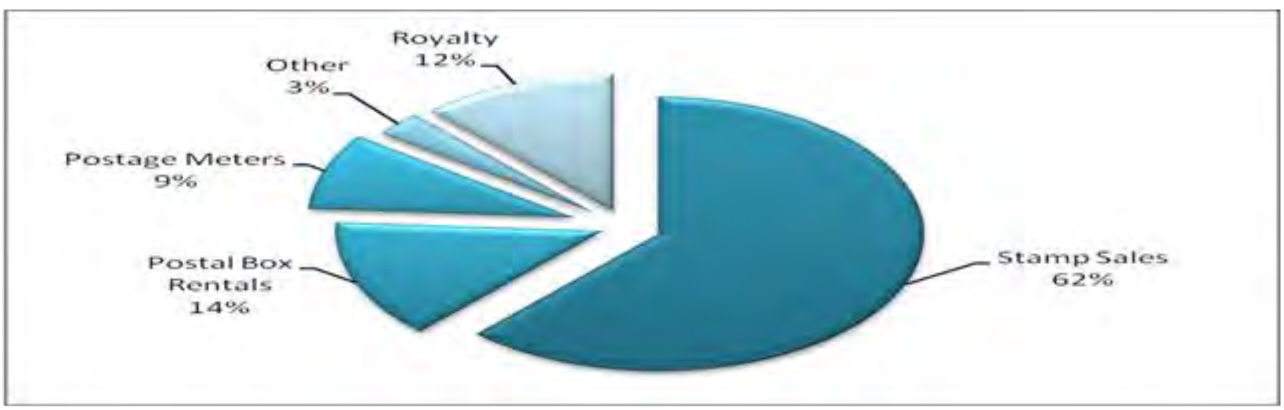
Changes in Net Assets

Current year activities resulted in a positive net assets of the Authority of $27,781. The summary statement of Revenues, Expenses, and Changes in Net Assets below was prepared to show the net asset calculation for the year.

Summary Statement of Revenues, Expenses, and Changes in Net Assets

	2011	2010	2009
Operating revenues	$ 458,304	$ 406,428	$ 325,964
Operating expenses	431,402	382,780	429,937
Operating income (loss)	26,902	23,648	(103,973)
Non-operating revenues	879	3,323	126,791
Changes in net assets	$ 27,781	$ 26,971	$ 22,818

The Authority's revenues (excluding Non-Operating revenues) earned and reported at the end of the year amounted to $458,304. Approximately 76% or $348,756 of the Authority's revenue generated during the year comes from stamp sales and postal box rental fees, which accounts for 62% and 14%, respectively, of the total of $458,304 earned during the year. The chart below was prepared to describe the composition of the Authority's revenue sources for 2011.



Revenue Sources

The major source of revenue of the Authority is the sale of stamps for domestic and international mail. As indicated below, stamp sales have increased by 21.4% from FY 2007 to FY 2008, 17.5% from FY 2008 to FY 2009, 25% from FY 2009 to FY 2010, and a further 17% from FY 2010 to FY 2011. The primary reason for this increase is the return of the domestic status in November 2007 by the United States Postal Service, the addition of 650 new PO BOXES, and the excellent services provided. The revenue amounts for 2008 and 2007 represent collections by the Ministry of Finance when the Authority was operated under the direct control of RepMar.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2011 and 2010

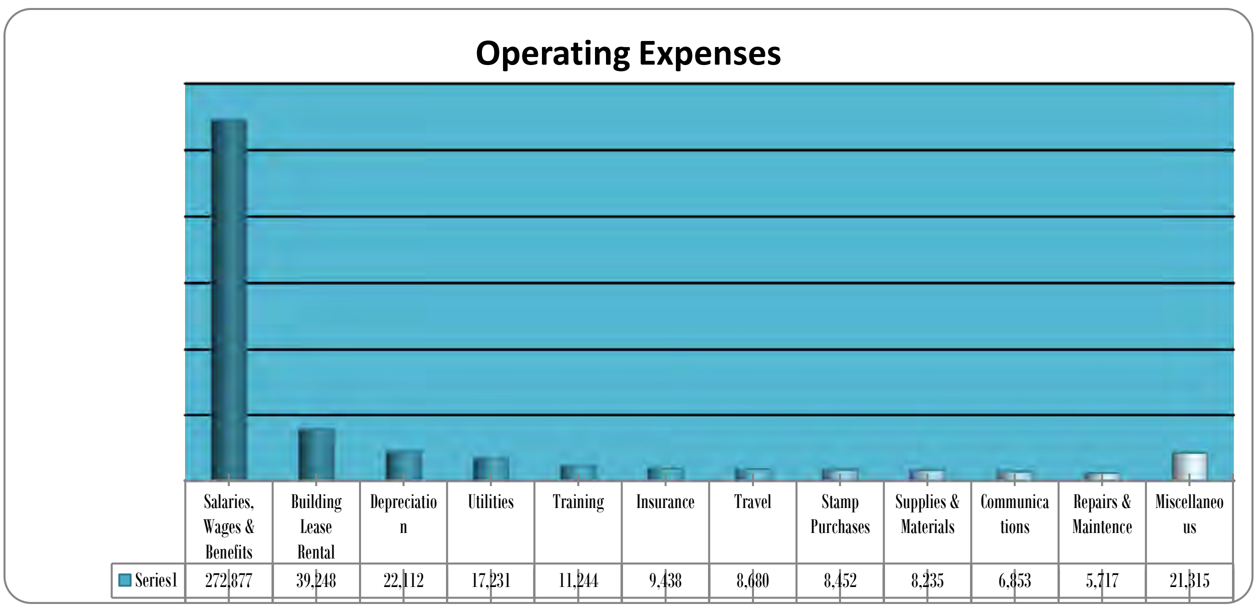
Revenue Sources Continued

	2011	2010	2009	(Unaudited) 2008	(Unaudited) 2007
Stamp sales	$282,936	$242,442	$211,869	$180,245	$148,508
Postal box rental	65,820	75,234	56,602	73,748	56,660
Postage meters	39,4204	47,015	46,750	33,539	31,057
Royalty	53,246	26,838	-	-	-
Others	16,882	14,899	10,743	15,556	5,959
	$458,304	$406,428	$325,964	$303,088	$242,184

Expense Distribution

Total expenses incurred as of the close of business on September 30, 2011 were $431,402. Of this amount, the Authority incurred $272,877 and $39,248, respectively, for salaries for employees and building rental. These expense line items account for 72% of the total expense of $431,402 incurred during the year.

The graph below was prepared to described the expenses distribution of the Authority during the year.



Capital Asset and Debt

During the year, the Authority purchased various equipment and other fixed assets at a cost of approximately $62,815. For additional information concerning capital assets, please refer to Note 3 of the accompanying financial statements.

Marshall Islands Postal Service Authority did not incur any long-term debt or have any outstanding debt at the end of the year.

ECONOMIC OUTLOOK

Marshall Islands Postal Service Authority plays an important role to provide excellent services to the people who are either sending or receiving their mail.

With the commitment and strive for excellence, the Authority continues to improve its customer services with added new features by allowing postal customers to check their mail (parcels) through an on-line website, offer internet access at the Ebeye Station, and opening the Non-Philatelic Center at Uliga Station amongst other initiatives.

Compared to previous years, both inbound and outbound mail volume and revenue collection have been increased significantly. By the same token, Marshall Islands Postal Service Authority was able to make a surplus two consecutive years despite increases in electricity and fuel costs.

With the philosophy for commitment and strive for excellence, public trust, and high standard of accountability by the board of directors and the management team continue to contribute and assist the economic development of the Marshall Islands.

REQUEST FOR INFORMATION

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Post Office's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Postmaster General, Post Office, Majuro, MH 96960.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Statements of Net Assets
September 30, 2011 and 2010

ASSETS	2011	2010
Current assets:		
Cash	$ 132,279	$ 113,362
Receivables:		
Postal box rental	75,406	90,610
Other	30,313	10,157
	105,719	100,767
Less allowance for doubtful accounts	(75,406)	(90,610)
	30,313	10,157
Stamp inventory	13,984	20,971
Prepaid expenses	8,744	8,316
Total current assets	185,320	152,806
Capital assets, net	76,861	36,158
	$ 262,181	$ 188,964
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 3,499	$ 6,354
Lease rental payable	83,919	69,189
Payable to affiliates	13,403	13,431
Accrued payroll	14,402	13,465
Accrued annual leave payable	7,508	6,759
Deferred revenue	51,020	19,073
Total current liabilities	173,751	128,271
Accrued annual leave payable, net of current portion	10,860	10,904
Total liabilities	184,611	139,175
Commitments and contingency		
Net assets:		
Invested in capital assets	76,861	36,158
Unrestricted	709	13,631
Total net assets	77,570	49,789
	$ 262,181	$ 188,964

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2011 and 2010

	2011	2010
Operating revenues:		
Stamp sales	$ 282,936	$ 242,442
Postal box rentals	65,820	75,234
Royalty	53,246	26,838
Postage meters	39,420	47,015
Other	16,882	14,899
Total operating revenues	458,304	406,428
Operating expenses:		
Salaries, wages and employee benefits	272,877	257,089
Building lease rental	39,248	39,248
Depreciation	22,112	12,437
Utilities	17,231	20,786
Training	11,244	10,050
Insurance	9,438	3,660
Travel	8,680	6,722
Stamp purchases	8,452	-
Supplies and materials	8,235	7,140
Communications	6,853	14,110
Repairs and maintenance	5,717	4,093
Miscellaneous	21,315	7,445
Total operating expenses	431,402	382,780
Operating income	26,902	23,648
Nonoperating revenues:		
Contributions from RepMar	879	3,323
Change in net assets	27,781	26,971
Net assets at beginning of year	49,789	22,818
Net assets at end of year	$ 77,570	$ 49,789

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from customers	$ 470,095	$ 397,933
Cash payments to suppliers for goods and services	(117,100)	(106,143)
Cash payments to employees for services	(271,263)	(262,997)
Net cash provided by operating activities	81,732	28,793
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(62,815)	(6,906)
Net change in cash	18,917	21,887
Cash at beginning of year	113,362	91,475
Cash at end of year	$ 132,279	$ 113,362
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 26,902	$ 23,648
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	22,112	12,437
(Increase) decrease in assets:		
Other receivables	(20,156)	(8,667)
Stamp inventory	7,866	(3,431)
Prepaid expenses	(428)	(3,265)
Increase (decrease) in liabilities:		
Accounts payable	(2,855)	(923)
Lease rental payable	14,730	14,730
Payable to affiliates	(28)	(984)
Accrued payroll	937	1,227
Accrued annual leave payable	705	(6,151)
Deferred revenues	31,947	172
Net cash provided by operating activities	$ 81,732	$ 28,793
Summary of noncash financing activities:		
Increase in stamp inventory	$ (879)	$ (3,323)
Contributions from RepMar	879	3,323
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

The Marshall Islands Postal Service Authority (the "Authority"), a component unit of the Republic of the Marshall Islands (RepMar), was created by the Postal Service Act of 1983 for the purpose of establishing an effective and efficient postal service for the Republic. The Authority provides both domestic and international mail services from three service outlets - the Uliga and Delap postal stations located on Majuro Atoll, and the Ebeye postal station located on Kwajalein Atoll.

The operations of the Authority were accounted for as a separate fund within RepMar's Ministry of Finance. Effective October 1, 2008, the Authority established a separate bank account outside of RepMar's Treasury for the purpose of receiving and disbursing funds in accordance with the Postal Service Fund (Amendment) Act of 2007. Accordingly, the accompanying financial statements relate solely to those accounting records maintained by the Authority and do not incorporate any accounts related to the Authority's operations that may be accounted for by RepMar's Treasury or any of RepMar's other branches, departmental units or component units.

The Authority is governed by a five-member Board of Directors appointed by the President of RepMar. The Board of Directors, in turn, is responsible for the appointment of the Postmaster General who oversees the day-to-day operations of the Authority.

The Authority's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures,* establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modify certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement 34, equity are presented in the following net asset categories:

- Invested in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

(2) Summary of Significant Accounting Policies, Continued

- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Authority considers revenues and costs that are directly related to operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Cash

Custodial credit risk is the risk that in the event of a bank failure, the Authority'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 or held by the pledging financial institution but not in the depositor-government's name. The Authority does not have a deposit policy for custodial credit risk.

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2011 and 2010, the carrying amount of cash was $132,279 and $113,362, respectively, and the corresponding bank balances were $121,045 and $112,235, respectively, which is maintained in a financial institution not subject to Federal Deposit Insurance Corporation (FDIC) insurance. The Authority does not require collateralization of its cash deposits; therefore, all deposits are uncollateralized.

Receivables

All receivables are due from businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience.

(2) Summary of Significant Accounting Policies, Continued

Stamp Inventory

Stamp inventory consists of stamps purchased for resale and are valued at the lower of cost (first-in, first-out) or market value.

Prepaid Expenses

Certain payments to vendors or persons for goods and services reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying financial statements.

Fixed Assets

The Authority does not have a capitalization policy for fixed assets; however, items with a cost that equals or exceeds $100 are generally capitalized at the time of acquisition. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Motor vehicles	3 years
Other furniture and equipment	5 years

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. As of September 30, 2011 and 2010, the accumulated vacation leave liability totals $18,368 and $17,663, respectively.

Deferred Revenue

Deferred revenues include amounts received for postal box rental fees prior to the end of the fiscal year but related to the subsequent accounting period.

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 receipts tax of 3% on revenues. The Authority is specifically exempt from this tax.

New Accounting Standards

During fiscal year 2011, the Authority implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements, which* addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus, which* is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity, and No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

Reclassification

Certain reclassifications have been made to the 2010 financial statements to conform with the 2011 presentation.

(3) Fixed Assets

Capital asset activity for the years ended September 30, 2011 and 2010 is as follows:

	October 1, 2010	Additions	Retirements	September 30, 2011
Motor vehicles	$ 24,150	$ 55,745	$ -	$ 79,895
Office furniture and equipment	30,054	7,070	-	37,124
	54,204	62,815	-	117,019
Less accumulated depreciation	(18,046)	(22,112)	-	(40,158)
	$ 36,158	$ 40,703	$ -	$ 76,861

	October 1, 2009	Additions	Retirements	September 30, 2010
Motor vehicles	$ 24,150	$ -	$ -	$ 24,150
Office furniture and equipment	23,148	6,906	-	30,054
	47,298	6,906	-	54,204
Less accumulated depreciation	(5,609)	(12,437)	-	(18,046)
	$ 41,689	$ (5,531)	$ -	$ 36,158

(4) Change in Long-Term Liabilities

Other long-term liabilities will be liquidated in the future from the Authority's operations. During the years ended September 30, 2011 and 2010, the following changes occurred in liabilities reported as part of the Authority's long-term liabilities in the statements of net assets:

	Balance October 1, 2010	Additions	Reductions	Balance September 30, 2011	Due Within One Year
Other liabilities: Compensated absences	$ 17,663	$ 21,443	$ 20,738	$ 18,368	$ 7,508

	Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010	Due Within One Year
Other liabilities:					
Compensated absences	$ 23,814	$ 23,467	$ (29,618)	$ 17,663	$ 6,759

(5) Related Party Transactions

The Authority is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. The Authority provides postal services to all RepMar-owned and affiliated entities at substantially the same terms and conditions as those provided to third parties.

The Authority utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties.

A summary of related party transactions for the years ended September 30, 2011 and 2010 is as follows:

	2011	
	Expenses	Payables
Marshall Islands Social Security Administration	$ 22,812	$ 11,539
Marshall Islands National Telecommunications Authority	6,853	-
Marshalls Energy Company, Inc.	17,231	-
RepMar	-	1,864
	$ 46,896	$ 13,403

	2010	
	Expenses	Payables
Marshall Islands Social Security Administration	$ 22,615	$ 11,712
Marshall Islands National Telecommunications Authority	14,110	-
Marshalls Energy Company, Inc.	20,786	-
RepMar	-	1,719
	$ 57,511	$ 13,431

(5) Related Party Transactions, Continued

During the years ended September 30, 2011 and 2010, RepMar purchased stamps at a cost of $879 and $3,323, respectively, from a third party vendor for and on behalf of the Authority. The cost of these stamp purchases has been recorded as a contribution from RepMar within the accompanying financial statements.

(6) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The Authority has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. No instances have occurred in the past three years where settlements have exceeded available insurance coverage.

(7) Commitments

On September 11, 1981, the Authority entered into a ten-year lease agreement for the Ebeye Post Office, with an option to extend for an additional four terms of five years each subject to incremental rent increases. The terms of the lease requires lease rental payments of $1,227 per month. During the years ended September 30, 2011 and 2010, rent expense under this lease amounted to $14,730.

On May 1, 2008, the Authority entered into a four-year lease agreement for the Uliga Post Office, with an option to extend for an additional three terms of two years each subject to renegotiation of the payment provisions. The terms of the lease requires lease rental payments of $1,243 per month. During the years ended September 30, 2011 and 2010, rent expense under this lease amounted to $14,918.

On January 1, 2008, the Authority entered into a five-year lease agreement for the Delap Post Office, with an option to extend for an additional four terms of five years each subject to renegotiation of the payment provisions. The terms of the lease requires lease rental payments of $800 per month. During the years ended September 30, 2011 and 2010, rent expense under this lease amounted to $9,600.

Total future minimum lease payments for subsequent years ending September 30, are as follows:

Year ending September 30,	
2011	$ 36,793
2012	18,302
2013	2,400
	$ 57,495

(8) Contingency

The Authority is currently delinquent on the payment of lease rental payments under the lease agreement for the Ebeye Post Office dating back to April 2000 in the total amount of $83,919. The delinquent amount is based on a monthly lease rental payment of $1,227; however, the lease agreement entered into stipulated incremental lease rental payments ranging from $1,665 to $1,980 per month. The Authority is in the process of formalizing the lease agreement with a monthly lease rental payment of $1,227. In the event that the Authority is unable to reach an agreement with the landlord, either the Authority or RepMar may be liable for additional lease rental payments in the aggregate amount of $88,908. No provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Combining Schedule of Operating Income (Loss) By Station
Year Ended September 30, 2011

	Uliga	Delap	Ebeye	Total
Operating revenues:				
Stamp sales	$ 195,073	$ 59,151	$ 28,712	$ 282,936
Postal box rentals	48,132	3,715	13,973	65,820
Royalty	53,246	-	-	53,246
Postage meters	39,420	-	-	39,420
Other	13,408	940	2,534	16,882
Total operating revenues	349,279	63,806	45,219	458,304
Operating expenses:				
Salaries, wages and employee benefits	201,707	2,852	68,318	272,877
Building lease rental	15,718	8,800	14,730	39,248
Depreciation	22,112	-	-	22,112
Utilities	11,129	-	6,102	17,231
Training	11,244	-	-	11,244
Insurance	9,438	-	-	9,438
Travel	6,542	-	2,138	8,680
Stamp purchases	5,304	1,994	1,154	8,452
Supplies and materials	7,948	-	287	8,235
Communications	5,424	30	1,399	6,853
Repairs and maintenance	5,717	-	-	5,717
Miscellaneous	18,403	47	2,865	21,315
Total operating expenses	320,686	13,723	96,993	431,402
Operating income (loss)	$ 28,593	$ 50,083	$ (51,774)	$ 26,902

See accompanying independent auditors' report.