

**MARSHALL ISLANDS POSTAL
SERVICE AUTHORITY**

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2009

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Postal Service Authority:

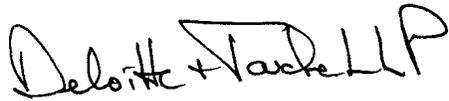
We have audited the accompanying statement of net assets of the Marshall Islands Postal Service Authority (the Authority), a component unit of the Republic of the Marshall Islands, as of September 30, 2009, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year 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 audit.

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. 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 audit provides 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, 2009, and its changes in net assets and its cash flows for the year 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2011, 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.

May 2, 2011

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis Year Ended September 30, 2009

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, 2009. 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 operations 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 operations were separated from RepMar's Ministry of Finance.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities at the close of business for the year by \$22,818 (Net Assets).
- As of the close of business on September 30, 2009, the Authority earned \$325,964 in revenues. Most of these were derived from revenues generated from stamp sales and postal box rentals, which account for 65% and 17% (or 82%) 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 \$429,937. These expenses were funded by the operating revenues generated by the Authority as well as contributions received from RepMar of \$126,791.

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 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 governmental agencies, uses fund accounting to ensure and demonstrate compliance with finance-related legal 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 governmental agencies as grants or support (*non-operating revenue*). These basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents 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.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis September 30, 2009

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents 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 *Statement of Cash Flows* presents 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 pages 10 and 11.

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 12 to 18 of this report.

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, 2009, the Authority's assets exceeded its liabilities by \$22,818, which is comprised of restricted net assets of \$41,689 that are invested in capital assets with the remainder representing a deficiency of \$18,871. Accordingly, this means that there are no unrestricted assets available to be used to finance the day-to-day operations of the Authority.

Summary Statement of Net Assets

Assets:	
Current assets	\$ 112,233
Capital and other assets	<u>41,689</u>
Total assets	\$ <u>153,922</u>
Liabilities:	
Current liabilities	\$ 116,402
Noncurrent liabilities	<u>14,702</u>
	<u>131,104</u>
Net Assets:	
Invested in capital assets	41,689
Unrestricted	<u>(18,871)</u>
Total net assets	<u>22,818</u>
	\$ <u>153,922</u>

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
September 30, 2009

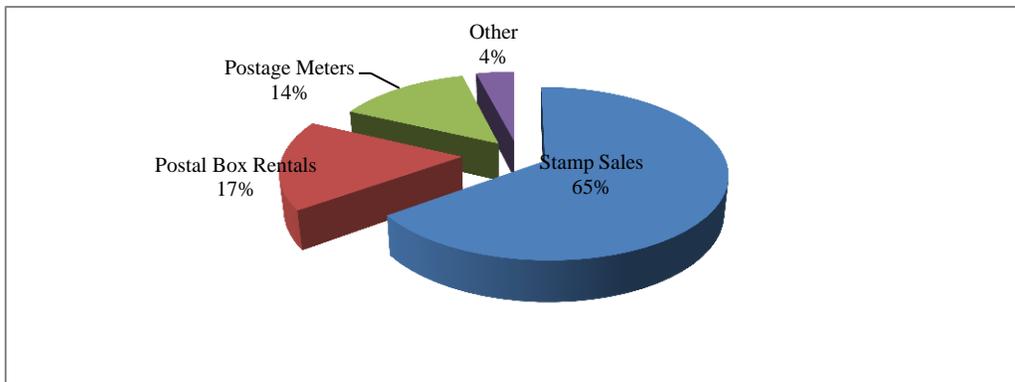
Changes in Net Assets

Current year activities resulted in a positive net assets of the Authority of \$22,818. 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

Operating revenues	\$ 325,964
Operating expenses	<u>429,937</u>
Operating loss	(103,973)
Nonoperating revenues	<u>126,791</u>
Change in net assets	\$ <u>22,818</u>

The Authority incurred an operating loss of \$103,973 for the year ended September 30, 2009. This operating loss was funded by contributions from RepMar in the amount of \$126,791. The Authority's total revenues (excluding Non-operating revenues) earned and reported at the end of the year amounted to \$325,964. Approximately 82% or \$268,471 of the Authority's revenue generated during the year comes from stamp sales and postal box rental fees, which accounts for 65% and 17%, respectively, of the total of \$325,964 earned during the year. The chart below was prepared to describe the composition of the Authority's revenue sources for 2009.



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 and a further 17.5% from FY 2008 to FY 2009. The primary reason for this increase is the return to domestic status in November 2007 by the United States Postal Service. 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 September 30, 2009

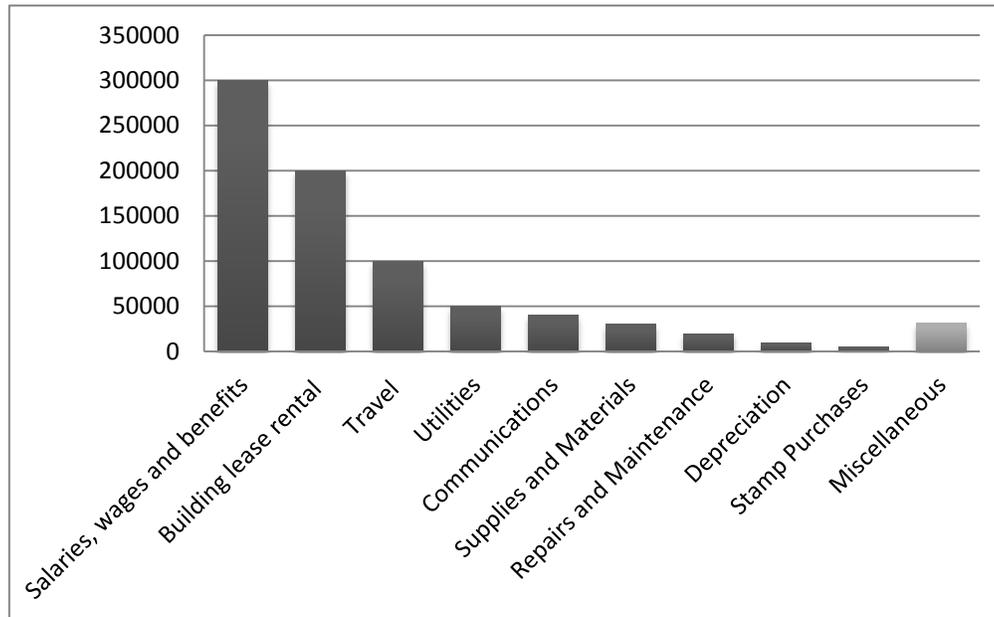
Revenue Sources, Continued

	<u>2009</u>	(Unaudited) <u>2008</u>	(Unaudited) <u>2007</u>
Stamp sales	\$ 211,869	\$ 180,245	\$ 148,508
Postal box rental	56,602	73,748	56,660
Postage meters	46,750	33,539	31,057
Others	<u>10,743</u>	<u>15,556</u>	<u>5,959</u>
	<u>\$ 325,964</u>	<u>\$ 303,088</u>	<u>\$ 242,184</u>

Expense Distribution

Total costs incurred as of the close of business on September 30, 2009 were \$429,937. Of this amount, the Authority incurred \$293,454 and \$37,598, respectively, for salaries for employees and building rental. These expense line items account for 77% of the total expenses of \$429,937 incurred during the year.

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



Capital Asset and Debt

During the year, the Authority purchased various equipment, vehicles, and other fixed assets at a cost of approximately \$47,298. For additional information concerning capital assets, please refer to Note 3 of the accompanying financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
September 30, 2009

ECONOMIC OUTLOOK

The Asian Development Bank recently released its "Asian Development Outlook 2010." Some of these comments are distilled from that report.

The Pacific region was impacted by the global recession of 2009. The Marshall Islands began to recover during 2010 and will continue to improve in 2011. Oil prices have receded but started to inch up again. Inflation is significantly down if not in negative territory for the first time. Equity funds have regained a significant amount of the market value that was previously lost.

The Marshall Islands is expected to grow 0.5% in fiscal year 2010. This is attributed to expansion in fish processing facilities coupled with an increase in government spending. Government spending will grow as a result of additional grants from Taiwan and the European Union. This spending is expected to increase 9% for a total annual amount of 138 million USD.

The Marshall Islands gross domestic product declined 2% in 2009 and is estimated to be flat in 2009 as a result of new construction work, opening of a fish-loining factory, and an increase in incoming remittances.

Whereas the short term economic outlook is improving, there is concern that austerity measures to curtail government spending need to be implemented soon to prevent an economic problem in 2023 when US funding is scheduled to cease. Each year the present US funding will decrease until 2023. To mitigate this, the government needs to generate an annual surplus of 5% of gross domestic product and deposit that surplus as an additional contribution to the so-called "Compact Trust Fund." In this is done then the trust fund can be expected to replace the US funding after 2023.

To achieve a budget surplus the government needs to reduce its civil service employee expense that currently consumes 22% of the annual budget. Tax collections also need to be modernized to yield more revenue.

Two government sponsored commissions have completed their work regarding recommended austerity measures and tax law modernization. The Marshall Islands Cabinet has accepted these recommendations and forwarded them to the nation's Parliament. The Parliament is expected to pass the necessary legislation to implement some or all of these recommendations as may be amended by the political process and implement them in 2012.

The Marshall Islands has experienced political instability that has negatively impacted private sector development as a result of political infighting resulting in frequent votes of no confidence. A general election is scheduled to occur during 2011 that could again change the composition of the Cabinet and the office of the President. Private sector expansion may not begin to occur until 2012.

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

Statement of Net Assets

September 30, 2009

ASSETS

Current assets:

Cash	\$ 91,475
Receivables:	
Postal box rental	70,825
Other	1,490
	<u>72,315</u>
Less allowance for doubtful accounts	(70,825)
	<u>1,490</u>
Stamp inventory	14,217
Prepaid expenses	5,051
Total current assets	<u>112,233</u>

Capital assets, net

41,689
<u>\$ 153,922</u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 7,277
Lease rental payable	54,459
Payable to affiliates	14,415
Accrued payroll	12,238
Accrued annual leave payable	9,112
Deferred revenue	18,901
Total current liabilities	<u>116,402</u>

Accrued annual leave payable, net of current portion

14,702

Total liabilities

131,104

Commitments and contingency

Net assets:

Invested in capital assets	41,689
Unrestricted	(18,871)
Total net assets	<u>22,818</u>

\$ 153,922

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets Year Ended September 30, 2009

Operating revenues:	
Stamp sales	\$ 211,869
Postal box rentals	56,602
Postage meters	46,750
Other	10,743
Total operating revenues	<u>325,964</u>
Operating expenses:	
Salaries, wages and employee benefits	293,454
Building lease rental	37,598
Travel	20,301
Utilities	17,230
Communications	13,192
Supplies and materials	8,859
Repairs and maintenance	6,894
Depreciation	5,609
Stamp purchases	2,875
Miscellaneous	23,925
Total operating expenses	<u>429,937</u>
Operating loss	(103,973)
Nonoperating revenues:	
Contributions from RepMar	126,791
Total nonoperating expenses	<u>126,791</u>
Change in net assets	22,818
Net assets at beginning of year	-
Net assets at end of year	<u><u>\$ 22,818</u></u>

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Statement of Cash Flows Year Ended September 30, 2009

Cash flows from operating activities:	
Cash received from customers	\$ 344,865
Cash payments to suppliers for goods and services	(112,534)
Cash payments to employees for services	(262,978)
Net cash used in operating activities	<u>(30,647)</u>
Cash flows from noncapital financing activities:	
Contributions from RepMar	<u>169,420</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(47,298)</u>
Net change in cash	91,475
Cash at beginning of year	-
Cash at end of year	<u>\$ 91,475</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (103,973)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	5,609
(Increase) decrease in assets:	
Receivables:	
Other	(1,490)
Stamp inventory	2,874
Prepaid expenses	(5,051)
Increase in liabilities:	
Accounts payable	7,277
Lease rental payable	14,730
Payable to affiliates	14,415
Accrued payroll	12,238
Accrued annual leave payable	3,823
Deferred revenues	18,901
Net cash used in operating activities	<u>\$ (30,647)</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Statement of Cash Flows, Continued

Year Ended September 30, 2009

Summary of noncash financing activities:

Increase in stamp inventory	\$ (17,091)
Increase in lease rental payable	39,729
Increase in accrued annual leave payable	19,991
Contributions from RepMar	(42,629)
	<hr/>
	\$ -
	<hr/> <hr/>

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2009

(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.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2009

(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, 2009, the carrying amount of cash was \$91,475 and the corresponding bank balance was \$90,995, 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.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2009

(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, 2009, the accumulated vacation leave liability totals \$23,814.

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 2009, the Authority implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2009

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which 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.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which 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 the Authority.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which 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 the Authority.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2009

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2009, GASB issued 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. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(3) Fixed Assets

Capital asset activity for the year ended September 30, 2009 is as follows:

	October 1, <u>2008</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2009</u>
Motor vehicles	\$ -	\$ 24,150	\$ -	\$ 24,150
Office furniture and equipment	<u>-</u>	<u>23,148</u>	<u>-</u>	<u>23,148</u>
	-	47,298	-	47,298
Less accumulated depreciation	<u>-</u>	<u>(5,609)</u>	<u>-</u>	<u>(5,609)</u>
	<u>\$ -</u>	<u>\$ 41,689</u>	<u>\$ -</u>	<u>\$ 41,689</u>

(4) Change in Long-Term Liabilities

Other long-term liabilities will be liquidated in the future from the Authority's operations. During the year ended September 30, 2009, the following changes occurred in liabilities reported as part of the Authority's long-term liabilities in the statement of net assets:

	Balance October 1, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2009</u>	Due Within <u>One Year</u>
Other liabilities:					
Compensated absences	\$ -	\$ 41,886	\$ (18,072)	\$ 23,814	\$ 9,112

(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.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2009

(5) Related Party Transactions, Continued

A summary of related party transactions for the year ended September 30, 2009 is as follows:

	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 23,939	\$ 12,672
Marshall Islands National Telecommunications Authority	13,192	-
Marshalls Energy Company, Inc.	17,230	-
RepMar	<u>-</u>	<u>1,743</u>
	<u>\$ 54,361</u>	<u>\$ 14,415</u>

During the year ended September 30, 2009, the Authority received total cash contributions from RepMar in the amount of \$169,420. In addition, at the commencement of the Authority's operations on October 1, 2008, RepMar transferred certain assets and liabilities to the Authority as follows:

Assets:

Postal box rental receivables	\$ 70,825
Stamp inventory	<u>6,739</u>
	<u>\$ 77,564</u>

Liabilities:

Lease rental payable	\$ 39,729
Accrued annual leave payable	<u>19,991</u>
	<u>\$ 59,720</u>

Upon the transfer of the postal box rental receivables, the Authority recorded a corresponding allowance for doubtful accounts. The transfer of stamp inventory, lease rental payable and accrued annual leave payable were recorded against the cash contributions received from RepMar.

During the year ended September 30, 2009, RepMar purchased stamps at a cost of \$10,352 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.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2009

(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 year ended September 30, 2009, 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 year ended September 30, 2009, 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 year ended September 30, 2009, rent expense under this lease amounted to \$9,600.

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

<u>Year ending</u> <u>September 30,</u>	
2010	\$ 39,248
2011	36,793
2012	18,302
2013	<u>2,400</u>
	\$ <u>96,743</u>

(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 \$139,932. RepMar has agreed to pay a portion of this amount, totaling \$85,473, thus the Authority has recorded a liability of \$54,459 within the accompanying financial statements for the remaining amount. 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 the 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 \$70,847. No provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.